NIPPON KOEI

Financial Report

Year ended June 30, 2019

NIPPON KOEI CO.,LTD.

Company Profile

Nippon Koei Co., Ltd. is Japan's leading engineering consultant. In terms of human resources, we have the largest number of engineers and specialists in the industry capable of solving the most sophisticated and complex issues which nations face. Our business activities cover five market areas: namely, domestic infrastructure market, international infrastructure market, electric power engineering market, urban & spatial development market, and participant in energy business.

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Financial Highlights

Consolidated

Years Ended June 30	Millions of Yen 2019	Millions of Yen 2018	Thousands of U.S. Dollars 2019
Net sales	**¥108,589**	¥106,024	**$1,007,366**
Net income attributable to owner of the parent	**3,319**	4,556	**30,789**

	Yen 2019	Yen 2018	U.S. Dollars 2019
Net income per share	**¥212.50**	¥294.12	**$1.97**

As of June 30	Millions of Yen 2019	Millions of Yen 2018	Thousands of U.S. Dollars 2019
Total assets	**¥113,175**	¥113,890	**$1,049,910**
Equity	**60,206**	59,450	**558,523**

Nonconsolidated

Years Ended June 30	Millions of Yen 2019	Millions of Yen 2018	Thousands of U.S. Dollars 2019
Net sales	**¥68,014**	¥64,782	**$630,957**
Net income	**2,329**	2,921	**21,606**

	Yen 2019	Yen 2018	U.S. Dollars 2019
Net income per share	**¥149.16**	¥188.56	**$1.38**

As of June 30	Millions of Yen 2019	Millions of Yen 2018	Thousands of U.S. Dollars 2019
Total assets	**¥95,339**	¥95,809	**$884,447**
Equity	**53,867**	53,012	**499,717**

Notes: 1. In Japan, a company can establish its fiscal year in accordance with the Companies Act and other related laws and regulations. By resolution of the 68th General Shareholders' Meeting held on June 27, 2013, the fiscal year of Nippon Koei Co., Ltd., has been established as July 1 to June 30.
2. Per share amounts are based on the weighted average number of shares outstanding during each year.
3. The dollar amounts in this report represent translations of yen, for convenience only, at the rate of ¥107.795 to $1, the approximate rate of exchange at June 30, 2019.

Consolidated Balance Sheet

Nippon Koei Co., Ltd. and Consolidated Subsidiaries
June 30, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	**2019**	2018	**2019**
CURRENT ASSETS:			
Cash and cash equivalents (Note 17)	**¥12,663**	¥15,233	**$117,473**
Receivables (Note 17):			
Trade notes	**29**	26	**269**
Trade accounts	**29,606**	26,072	**274,651**
Unconsolidated subsidiaries and associated companies	**305**	117	**2,829**
Other	**521**	474	**4,833**
Allowance for doubtful accounts	**(203)**	(83)	**(1,883)**
Inventories (Note 7)	**5,921**	8,169	**54,928**
Prepaid expenses and other current assets	**3,604**	4,256	**33,435**
Total current assets	**52,446**	54,264	**486,535**
PROPERTY, PLANT AND EQUIPMENT (Notes 8 and 9):			
Land	**16,035**	16,598	**148,755**
Buildings and structures	**14,831**	17,153	**137,585**
Machinery and equipment	**3,956**	3,895	**36,699**
Furniture and fixtures	**4,872**	5,008	**45,197**
Lease assets	**185**	154	**1,716**
Construction in progress	**6,142**	2,958	**56,979**
Total	**46,021**	45,766	**426,931**
Accumulated depreciation	**(16,138)**	(18,142)	**(149,710)**
Net property, plant and equipment	**29,883**	27,624	**277,221**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 6 and 17)	**4,001**	5,846	**37,117**
Investments in and advances to unconsolidated subsidiaries and associated companies (Notes 10 and 17(5)(b))	**5,494**	5,001	**50,967**
Trademarks	**3,154**	3,162	**29,259**
Goodwill (Note 5)	**8,193**	8,186	**76,005**
Receivables in bankruptcy	**15**	16	**139**
Deferred tax assets (Note 14)	**1,503**	1,512	**13,943**
Asset for retirement benefits	**3,943**	4,080	**36,579**
Other assets	**4,712**	4,377	**43,713**
Allowance for doubtful accounts	**(169)**	(178)	**(1,568)**
Total investments and other assets	**30,846**	32,002	**286,154**
TOTAL	**¥113,175**	¥113,890	**$1,049,910**

LIABILITIES AND EQUITY	Millions of Yen 2019	Millions of Yen 2018	Thousands of U.S. Dollars (Note 1) 2019
CURRENT LIABILITIES:			
Current portion of long-term debt (Note 11 and 17)	**¥2,120**	¥2,072	**$19,667**
Payables:			
Trade accounts	**5,015**	4,123	**46,523**
Unconsolidated subsidiaries and associated companies	**29**	52	**269**
Other	**2,252**	2,386	**20,891**
Income taxes payable	**1,137**	1,013	**10,548**
Advances received	**6,688**	8,694	**62,044**
Unearned revenue	**2,892**	3,157	**26,829**
Accrued bonuses	**2,758**	2,589	**25,586**
Allowance for anticipated project loss	**120**	177	**1,113**
Other current liabilities	**5,072**	4,178	**47,052**
Total current liabilities	**28,083**	28,441	**260,522**
LONG-TERM LIABILITIES:			
Long-term debt (Note 11 and 17)	**17,714**	18,965	**164,330**
Provision for directors' retirement benefits (Note 12)	**30**	32	**279**
Allowance for environmental measures	**34**	34	**316**
Liability for retirement benefits (Note 12)	**3,818**	3,874	**35,419**
Deferred tax liabilities (Note 14)	**2,819**	2,767	**26,151**
Other long-term liabilities	**471**	327	**4,370**
Total long-term liabilities	**24,886**	25,999	**230,865**
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 16, 18 and 19)			
EQUITY (Notes 13 and 21):			
Common stock, authorized, 38,000,000 shares in 2019 and 38,000,000 shares in 2018; issued, 15,919,544 shares in 2019 and 15,905,049 shares in 2018	**7,438**	7,415	**69,001**
Capital surplus	**6,489**	6,466	**60,198**
Retained earnings	**47,864**	45,529	**444,028**
Treasury stock-at cost 235,268 shares in 2019 and 364,422 shares in 2018	**(787)**	(1,180)	**(7,301)**
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	**456**	1,196	**4,230**
Foreign currency translation adjustments	**(3,064)**	(2,045)	**(28,424)**
Defined retirement benefit plans	**694**	983	**6,438**
Total	**59,090**	58,364	**548,170**
Noncontrolling interests	**1,116**	1,086	**10,353**
Total equity	**60,206**	59,450	**558,523**
TOTAL	**¥113,175**	¥113,890	**$1,049,910**

See notes to consolidated financial statements.

Consolidated Statement of Income and Comprehensive Income

Nippon Koei Co., Ltd. and Consolidated Subsidiaries
Year ended June 30, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	**2019**
NET SALES	**¥108,589**	¥106,024	**$1,007,366**
COST OF SALES	**75,627**	73,664	**701,582**
Gross profit	**32,962**	32,360	**305,784**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 15)	**27,851**	25,798	**258,370**
Operating income	**5,111**	6,562	**47,414**
OTHER INCOME (EXPENSES):			
Interest and dividend income	**337**	446	**3,126**
Interest expense	**(277)**	(223)	**(2,570)**
Foreign currency exchange loss	**(164)**	(149)	**(1,521)**
Gain on sales of property, plant and equipment	**781**	1,284	**7,245**
Head office transfer cost	**—**	(833)	**—**
Equity in losses of associated companies	**(129)**	—	**(1,197)**
Other-net	**(74)**	78	**(686)**
Other income-net	**474**	603	**4,397**
INCOME BEFORE INCOME TAXES	**5,585**	7,165	**51,811**
INCOME TAXES (Note 14):			
Current	**1,992**	1,833	**18,480**
Deferred	**189**	723	**1,753**
Total income taxes	**2,181**	2,556	**20,233**
NET INCOME	**3,404**	4,609	**31,578**
NET INCOME ATTRIBUTABLE TO:			
Owners of the parent	**3,319**	4,556	**30,789**
Noncontrolling interests	**85**	53	**789**
OTHER COMPREHENSIVE INCOME (LOSS) (Note 20):			
Unrealized (loss) gain on available-for-sale securities	**(740)**	177	**(6,865)**
Foreign currency translation adjustment	**(933)**	(242)	**(8,655)**
Defined retirement benefit plans	**(290)**	155	**(2,690)**
Share of other comprehensive income of associates accounted for using equity method	**(91)**	—	**(844)**
Total other comprehensive (loss) income	**(2,054)**	90	**(19,054)**
COMPREHENSIVE INCOME	**¥1,350**	¥4,699	**$12,524**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	**¥1,264**	¥4,681	**$11,726**
Noncontrolling interests	**¥86**	¥18	**$798**

	Yen		U.S. Dollars (Note 1)
PER SHARE OF COMMON STOCK (Note 2.u):			
Basic net income	**¥212.50**	¥294.12	**$1.97**
Cash dividends applicable to the year	**75.00**	75.00	**0.70**

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Nippon Koei Co., Ltd. and Consolidated Subsidiaries
Year ended June 30, 2019

	Thousands	Millions of Yen									
						Accumulated Other Comprehensive Income					
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain (Loss) on available-for-sale securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, JULY 1, 2017	**15,439**	**¥7,393**	**¥7,241**	**¥43,450**	**¥(3,607)**	**¥1,017**	**¥(1,814)**	**¥828**	**¥54,508**	**¥366**	**¥54,874**
Issuance of new shares	10	22	22	—	—	—	—	—	44	—	44
Adjustment for change in scope of consolidation	—	—	39	38	—	—	(22)	—	55	711	766
Net income attributable to owners of the parent	—	—	—	4,556	—	—	—	—	4,556	—	4,556
Cash dividends, ¥75.00 per share	—	—	—	(1,192)	—	—	—	—	(1,192)	—	(1,192)
Purchase of treasury stock	(6)	—	—	—	(26)	—	—	—	(26)	—	(26)
Disposal of treasury stock	98	—	—	—	294	—	—	—	294	—	294
Retirement of treasury stock	—	—	(836)	(1,323)	2,159	—	—	—	—	—	—
Net change in the year	—	—	—	—	—	179	(209)	155	125	9	134
BALANCE, JUNE 30, 2018	**15,541**	**7,415**	**6,466**	**45,529**	**(1,180)**	**1,196**	**(2,045)**	**983**	**58,364**	**1,086**	**59,450**
Issuance of new shares	14	23	23	—	—	—	—	—	46	—	46
Adjustment for change in scope of consolidation	—	—	—	209	—	—	(17)	—	192	—	192
Net income attributable to owners of the parent	—	—	—	3,319	—	—	—	—	3,319	—	3,319
Cash dividends, ¥75.00 per share	—	—	—	(1,193)	—	—	—	—	(1,193)	—	(1,193)
Purchase of treasury stock	(3)	—	—	—	(8)	—	—	—	(8)	—	(8)
Disposal of treasury stock	132	—	—	—	401	—	—	—	401	—	401
Retirement of treasury stock	—	—	—	—	—	—	—	—	—	—	—
Net change in the year	—	—	—	—	—	(740)	(1,002)	(289)	(2,031)	30	(2,001)
BALANCE, JUNE 30, 2019	**15,684**	**¥7,438**	**¥6,489**	**¥47,864**	**¥(787)**	**¥456**	**¥(3,064)**	**¥694**	**¥59,090**	**¥1,116**	**¥60,206**

	Thousands of U.S. Dollars (Note 1)									
					Accumulated Other Comprehensive Income					
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain (Loss) on available-for-sale securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, JUNE 30, 2018	**$68,788**	**$59,984**	**$422,367**	**$(10,947)**	**$11,095**	**$(18,971)**	**$9,119**	**$541,435**	**$10,075**	**$551,510**
Issuance of new shares	213	214	—	—	—	—	—	427	—	427
Adjustment for change in scope of consolidation	—	—	1,939	—	—	(158)	—	1,781	—	1,781
Net income attributable to owners of the parent	—	—	30,789	—	—	—	—	30,789	—	30,789
Cash dividends, $0.70 per share	—	—	(11,067)	—	—	—	—	(11,067)	—	(11,067)
Purchase of treasury stock	—	—	—	(74)	—	—	—	(74)	—	(74)
Disposal of treasury stock	—	—	—	3,720	—	—	—	3,720	—	3,720
Retirement of treasury stock	—	—	—	—	—	—	—	—	—	—
Net change in the year	—	—	—	—	(6,865)	(9,295)	(2,681)	(18,841)	278	(18,563)
BALANCE, JUNE 30, 2019	**$69,001**	**$60,198**	**$444,028**	**$(7,301)**	**$4,230**	**$(28,424)**	**$6,438**	**$548,170**	**$10,353**	**$558,523**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Nippon Koei Co., Ltd. and Consolidated Subsidiaries
Year ended June 30, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
OPERATING ACTIVITIES:	**2019**	2018	**2019**
Income before income taxes	**¥5,585**	¥7,165	**$51,811**
Adjustments for:			
Income taxes – paid	**(1,832)**	(1,973)	**(16,995)**
Depreciation and amortization	**1,710**	1,668	**15,863**
Amortization of goodwill	**482**	474	**4,471**
Gain on sales of property, plant and equipment	**(781)**	(1,284)	**(7,245)**
Loss (gain) on sales of investment securities	**13**	(64)	**121**
Equity in losses of associated companies	**129**	—	**1,197**
Increase in trade accounts receivable	**(2,917)**	(8,087)	**(27,061)**
Decrease in inventories	**2,282**	3,797	**21,170**
Increase in trade accounts payable	**588**	160	**5,455**
Decrease in advanced received	**(2,016)**	(2,079)	**(18,702)**
Other - net	**(134)**	(379)	**(1,243)**
Net cash (used in) provided by operating activities	**3,109**	(602)	**28,842**
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	**¥(3,686)**	¥(3,323)	**$(34,195)**
Proceeds from sales of property, plant and equipment	**1,846**	2,339	**17,125**
Proceeds from sales and redemption of investment securities	**559**	2,858	**5,186**
Purchases of investment securities	**(179)**	(1,592)	**(1,660)**
Payment for purchase of a newly consolidated subsidiary, net of cash acquired	**(2,686)**	(582)	**(24,918)**
Payments of loans receivable	**(600)**	(791)	**(5,566)**
Other - net	**1,242**	2,068	**11,522**
Net cash provided by (used in) investing activities	**(3,504)**	977	**(32,506)**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
FINANCING ACTIVITIES:	**2019**	2018	**2019**
Proceeds from long-term loans payable	**¥1,293**	¥—	**¥11,995**
Repayments of long-term loans payable	**(2,393)**	(2,100)	**(22,199)**
Purchase of treasury stock	**(8)**	(26)	**(74)**
Disposal of treasury stock	**401**	294	**3,720**
Dividends paid	**(1,188)**	(1,193)	**(11,021)**
Other - net	**(42)**	(38)	**(390)**
Net cash (used in) provided by financing activities	**(1,937)**	(3,063)	**(17,969)**
EFFECT OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS	**(310)**	(22)	**(2,876)**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(2,642)**	(2,710)	**(24,509)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**15,233**	17,083	**141,315**
INCREASE IN CASH AND CASH EQUIVALENTS FROM NEWLY CONSOLIDATED SUBSIDIARIES	**72**	860	**667**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥12,663**	¥15,233	**$117,473**

See notes to consolidated financial statements.

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2018 consolidated financial statements to conform to the classifications used in 2019.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Nippon Koei Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥107.795 to $1, the approximate rate of exchange at June 30, 2019. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. ***Consolidation*** — The consolidated financial statements as of June 30, 2019, include the accounts of the Company and its 68 significant (62 in 2018) subsidiaries (collectively, the "Group").

NIPPON KOEI LATIN AMERICA – CARIBBEAN, MEXICO S.DE R.L. DE C.V., NIPPON KOEI ENERGY EUROPE B.V. and QUADRANGLE DESIGN LIMITED were added in the scope of consolidation from the current fiscal year due to their newly establishment. NIPPON KOEI MOZAMBIQUE, LIMITADA and KISHO KUROKAWA ARCHITECT & ASSOCIATES CO., LTD. were added in the scope of consolidation from the current fiscal year due to their increased materiality. QUADRANGLE DESIGN LIMITED also acquired shares of QUADRANGLE ARCHITECTS LIMITED on February 4, 2019, making it consolidated subsidiary as of the current consolidated fiscal year.

Under the control and influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in 5 (1 in 2018) associated companies are accounted for by the equity method. Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the impact on the accompanying consolidated financial statements would not be significant.

Goodwill represents the excess of cost of an acquisition over the fair value of the net assets of the acquired subsidiaries at the date of acquisition.
Goodwill is amortized using the straight-line method over its useful life, which is estimated as a reasonable period (mainly 10 or 20 years) for which goodwill is expected to have an effect.

All significant intercompany balances and transactions have been eliminated in consolidation. All significant unrealized profit included in assets resulting from transactions within the Group is also eliminated.

b. ***Business Combinations*** — Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. The acquirer recognizes any bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

c. ***Cash Equivalents*** — Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value.

Cash equivalents include time deposits and investment trusts, both of which mature or become due within three months of the date of acquisition.

d. ***Investment Securities*** — Investment securities are classified and accounted for, depending on management's intent, as follows:

(1) Held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost; and (2) available-for-sale securities, which are not classified as the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, in a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

e. ***Inventories*** — Work in process is stated at the lower of cost, mainly determined by the specific identification cost method, or net selling value (see Note 7).

f. ***Property, Plant, and Equipment*** — Property, plant, and equipment are stated at cost. Depreciation of property, plant, and equipment of the Company and its consolidated subsidiaries is computed principally by the straight-line method based on the estimated useful lives of the assets. The range of useful lives is principally from 3 to 63 years for buildings and structures, from 2 to 22 years for machinery and equipment, and from 2 to 20 years for furniture and fixtures. The useful lives for lease assets are the terms of the respective leases.

g. ***Long-Lived Assets*** — The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

h. ***Allowance for Doubtful Accounts*** — The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

i. ***Retirement and Pension Plans*** — The Group has contributory defined benefit pension plans and unfunded retirement benefit plans for the benefit of its employees.

The Group accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the consolidated balance sheet date. The projected benefit obligations are attributed to periods on a straight-line basis. Actual gains and losses and past service costs are amortized and recognized in profit or loss over 13 years.

Hitherto, retirement benefits for directors were provided at the amount that would be required if all directors retired at the consolidated balance sheet date. However, the Group terminated benefit pension plans for directors. The balance in the consolidated balance sheet is the estimated amount for directors who have belonged to the Group since the plans were effective.

j. ***Allowance for Anticipated Project Loss*** — The Group has made a provision for anticipated losses on uncompleted project contracts.

k. ***Asset Retirement Obligations*** — An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

l. ***Employee Stock Ownership Plan*** — In accordance with Practical Issues Task Force ("PITF") No. 30, "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts," upon transfer of treasury stock to the employee stockownership trust (the "Trust") by the entity, any difference between the book value and fair value of the treasury stock is recorded in capital surplus. At year-end, the Company records (1) the Company stock held by the Trust as treasury stock in equity, (2) all other assets and liabilities of the Trust on a line-by-line basis, and (3) a liability/asset for the net of (i) any gain or loss on delivery of the stock by the Trust to the employee shareholding association, (ii) dividends received from the entity for the stock held by the Trust, and (iii) any expenses relating to the Trust.

m. ***Research and Development Costs*** — Research and development costs are charged to income as incurred.

n. ***Leases*** — Finance lease transactions are capitalized to recognize lease assets and lease obligations in the consolidated balance sheet. All other leases are accounted for as operating leases.

o. ***Accrued Bonuses*** — Bonuses to employees, directors, and Audit & Supervisory Board members are accrued at the end of the year to which such bonuses are attributable.

p. ***Allowance for Environmental Measures*** — The Group has made a provision for the treatment of Polychlorinated Biphenyl ("PCB") Wastes based on the Act on Special Measures concerning Promotion of Proper Treatment of PCB Wastes.

q. ***Income Taxes*** — The provision for income taxes is computed based on pretax income included in the consolidated statement of income and comprehensive income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

r. ***Foreign Currency Transactions*** — All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the consolidated balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income and comprehensive income.

s. ***Revenue Recognition*** — During the progress of operation, the percentage-of-completion method is applied when the extent of progress toward completion, total costs on and total revenue from the contract are reliably estimated. The stage of completion is determined using the cost-to-cost method.

t. ***Derivatives and Hedging Activities*** — The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Interest rate and currency swaps are utilized by the Group to reduce the risks of foreign currency exchange and interest rate. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: (1) all derivatives are recognized as either assets or liabilities and measured at fair value; and gains or losses on derivative transactions are recognized in the consolidated statement of income and comprehensive income; (2) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

Interest rate and currency swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

u. ***Per Share Information*** — Basic net income per share is computed by dividing net income attributable to shareholders of common stock by the weighted-average number of shares of common stock outstanding for the period.

Diluted net income per share of common stock is not disclosed because the Group had no securities outstanding that might dilute the per share information for the years ended June 30, 2019 and 2018.

Cash dividends per share presented in the accompanying consolidated statement of income and comprehensive income are dividends applicable to the respective years, including dividends to be paid after the end of the fiscal year.

v. ***Accounting Changes and Error Corrections*** — Under ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections," and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections," accounting treatments are required as follows:

(1) Changes in Accounting Policies:
When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions.

(2) Changes in Presentation:
When the presentation of consolidated financial statements is changed, prior-period consolidated financial statements are reclassified in accordance with the new presentation.

(3) Changes in Accounting Estimates:
A change in an accounting estimate is accounted for in the period of the change if the change affects that period only and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of Prior-Period Errors:
When an error in prior-period consolidated financial statements is discovered, those statements are restated.

Changes in Accounting Policies that are difficult to distinguish from Changes in Accounting Estimates, and Changes in Accounting Estimates

Change in depreciation method for property, plant and equipment — The Group took the opportunity provided by drawing up the Medium-term Management Plan, its first year is the current fiscal year, to investigate the status of property, plant and equipment usage. As a result, because it is expected that the economic benefit derived from property, plant and equipment assets will be consumed equally over its useful life at the Company and some of its domestic subsidiaries, from the current fiscal year the depreciation method for property, plant and equipment has been changed from the declining-balance method to the straight-line method, and costs have been allocated more appropriately.
Also, as a consequence of this change in the depreciation method, for certain property, plant and equipment assets, upon consideration of the price at the time of retirement, the residual value has been changed to ¥1, a memorandum of value.
As a result of this change, the depreciation expenses for the current fiscal year decreased by ¥36 million ($334 thousand,) and each of operating income, ordinary income, and income before income taxes increased by ¥36 million ($334 thousand) from the amounts based on the previous method.

New Accounting Pronouncements

Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018) and Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018) — The International Accounting Standards Board ("IASB") and Financial Accounting Standards Board of the United States of America ("FASB") jointly developed a comprehensive accounting standard for revenue recognition and issued Revenue from Contracts with Customers (IFRS No. 15, issued by IASB and Topic 606 issued by FASB) in May 2014. Considering the situation that IFRS No. 15 has become applicable from the fiscal year beginning on or after January 1, 2018, and Topic 606 from the fiscal year beginning on or after December 15, 2017, ASBJ developed a comprehensive accounting standard for revenue recognition and issued it together with implementation guidance.
ASBJ's basic policy in developing the accounting standard for revenue recognition was to establish accounting standards as a starting point to adopt basic principles of IFRS No. 15 from the viewpoint of comparability of financial statements, which is one of benefits of maintaining consistency with IFRS No. 15, and to add alternative treatments to the extent not to impair comparability in cases where previous practices and others in Japan should be considered.
The Group will not apply this accounting standard because it will voluntarily apply IFRS from the year ending June 30, 2020. Therefore, the Group has not assessed the impact from application for the consolidated financial statements.

3. CHANGES IN PRESENTATION

Changes following the adoption of Partial Amendments to Accounting Standard for Tax Effect Accounting — Effective from April 1, 2018, the Company applied Statement No. 28 Partial Amendments to Accounting Standard for Tax Effect Accounting, issued by the ASBJ on February 16, 2018. Accordingly, it changed its method of presenting “deferred tax assets” under “investments and other assets,” and “deferred tax liabilities” under “long-term liabilities.” The Company also changed its explanatory notes regarding tax effect accounting.

Consequently, previously stated amounts presented in the consolidated balance sheet for the previous fiscal year were changed as follows: “deferred tax assets” under “current assets” decreased by ¥994 million and “deferred tax liabilities” under “long-term liabilities” decreased by ¥617 million. Furthermore, “deferred tax assets” under “investments and other assets” increased by ¥377 million compared with the time before the change went into effect, reflecting the offsetting of consolidated deferred tax assets and deferred tax liabilities.

The Company added details to the explanatory notes herein based on items 3 to 5 of the Partial Amendments to Accounting Standard for Tax Effect Accounting, specifically in reference to tax effect-related accounting standards and the exclusion of total valuation allowance in sections 8 and 9. Among these added details, however, details related to the previous fiscal year have not been included in accordance with the transitional treatment explained in item 7 of the Partial Amendments to Accounting Standard for Tax Effect Accounting.

4. ADDITIONAL INFORMATION

Employee Stock Ownership Plan (“ESOP”) Trust — The Company maintains an ESOP for a part of its employees’ welfare programs which includes transfers of the Company’s own stock to the employees’ stockholders association through a trust.

(1) Overview of the transaction

At a meeting of the Board of Directors held on May 15, 2017, the Company resolved to reintroduce an ESOP as a disposition-type employee shareholding incentive plan to provide the Group’s employees with incentives to improve corporate value and enhance their welfare programs.

The Company also resolved to dispose of a part of treasury stock that the Company owns to an account established in Trust & Custody Services Bank, Ltd. (the “Trust Account E”) by “third-party” allotment en bloc.

The ESOP is an incentive plan that distributes the profit of stock price rise for all the employees who join “Nippon Koei Group employees’ stockholders association” (the “Employees’ Stockholders Association”.) To initiate the ESOP, the Company concluded the “Stock Benefit Trust (disposition-type ESOP) Agreement;” the trust established pursuant to the role of the agreement shall be referred to as the “ESOP Trust,” whereby the Company is to act as administrator and the role of trustee is assigned to Mizuho Trust & Banking Co., Ltd. (the “Trustee”.) The Trustee also concluded an agreement with Trust & Custody Services Bank, Ltd., under which the Trustee is to re-entrust management of security and other asset of the ESOP Trust to Trust & Custody Services Bank, Ltd.

The Trust Account E acquires shares of the Company that the Employees’ Stockholders Association is expected to obtain over the five years after the trust is set up, and periodically sells its holdings to the Employees’ Stockholders Association. If, by the time of the ESOP Trust’s termination, gains equivalent to capital gains on sales of shares are accumulated within the ESOP Trust through sales of Company’s shares by the Trust Account E to the Employees’ Stockholders Association, then those gains will be distributed as residual assets to the Employees’ Stockholders Association enrollees who meet the requirements for eligible beneficiaries. Furthermore, to guarantee funds borrowed by the Trustee that enable the Trust Account E to acquire Company’s shares, the Company is to repay any such remaining borrowings pursuant to a guarantee agreement, in the event that there are any remaining borrowings equivalent to losses on sales of shares due to a downturn in the price of Company’s shares up until termination of the ESOP Trust.

(2) The Company’s shares remaining in the ESOP

Shares of the Company remaining in the ESOP are recognized at the ESOP’s book value thereof (excluding the amount of ancillary expenses) as treasury stock under net assets. The book value and number of shares of such treasury stock were ¥686 million ($6,364 thousand) and 226 thousand shares, respectively, for the year ended June 30, 2019.

(3) Book value of borrowings posted through the application of the gross price method

Book value of borrowings posted through the application of the gross price method was ¥728 million ($6,754 thousand) for the year ended June 30, 2019.

5. BUSINESS COMBINATION

Business combination by acquisition for the year ended June 30, 2019, was as follows:

(1) Outline of the business combination

a. Name of acquired company and its business outline

Name of the acquired company: QUADRANGLE ARCHITECTS LIMITED
Business outline: Architectural design business

b. Major reason for the business combination

The Company and BDP HOLDINGS LIMITED place "overseas expansion of Urban & Spatial business" as a focus area in the Medium-Term Management Plan "NK-Innovation 2021," promoting business expansion outside the U.K. as their growth strategy. QUADRANGLE ARCHITECTS LIMITED (hereinafter referred as "QUADRANGLE") is a comprehensive architecture and interior design company having strengths in architectural design of commercial facilities, complex facilities, condominiums, etc., in Canada, with over 200 architects and interior designers. With QUADRANGLE in the Group, synergies are expected through leveraging the company's business in Canada, which shares many similarities in business with the U.K. and utilizing the strength of both companies enabling business expansion into the Canadian market. For sustainable growth and further improvement of the corporate value of the Group, the Company will accelerate its growth strategy of Urban & Spatial Development outside the U.K.

c. Date of business combination

February 4, 2019

d. Legal form of business combination

Share acquisition in consideration for cash

e. Name of the company after the combination

No change

f. Ratio of voting rights acquired

49%

g. Basis for determining the acquirer

Determination of the acquirer is based on the facts that the Company acquired 49% of voting rights by means of share acquisition in consideration for cash as well as can exercise control over the decisions of significant financial, operational and business policies based on contracts.

(2) The period for which the operations of the acquired company are included in the consolidated financial statements

The operations of the acquired company for the five months from February 1, 2019 to June 30, 2019, were included in the consolidated statement of income for the year ended June 30, 2019.

(3) Acquisition cost of the acquired company and related details of each class of consideration

	Thousands of Canadian Dollars	Millions of Yen	Thousands of U.S. Dollars
	2019	2019	2019
Consideration for acquisition—Cash	C$34,265	¥2,841	$26,356
Acquisition cost	C$34,265	¥2,841	$26,356

(4) Major acquisition-related costs

Advisory fees and commissions to
the lawyers and financial institutions: C$2,541 thousand (¥213 million ($1,976 thousand))

(5) Amount of goodwill incurred, reasons for the goodwill incurred, and the method and period of amortization

(a) Amount of goodwill incurred

C$11,133 thousand (¥923 million ($8,563 thousand))

(b) Reasons for the goodwill incurred

Goodwill is incurred from expected excess earnings power in the future arising from further business development.

(c) Method and period of amortization

The goodwill is amortized on a straight-line basis over 10 years.

(6) The assets acquired and the liabilities assumed at the acquisition date are as follows:

	Thousands of Canadian Dollars	Millions of Yen	Thousands of U.S. Dollars
	2019	2019	2019
Current assets	C$14,588	¥1,210	$11,225
Property, plant and equipment and intangible assets	18,960	1,572	14,583
Total assets acquired	C$33,548	¥2,782	$25,808
Current liabilities	5,822	483	4,481
Long-term liabilities	5,414	449	4,165
Total liabilities assumed	C$11,236	¥932	$8,646

In addition, the amount allocated to intangible assets other than goodwill through the acquisition cost allocation is C$15,846 thousand (¥1,314 million ($12,190 thousand)); mainly consisted of customer relationships amounted C$7,881 thousand (¥654 million ($6,067 thousand) and will be amortized over 10 years.

(7) Pro forma information (unaudited)

If this business combination had been completed as of July 1, 2018, the beginning of the current fiscal year, the impact on the consolidated statement of income for the year ended June 30, 2019, would be as follows:

	Thousands of Canadian Dollars	Millions of Yen	Thousands of U.S. Dollars
	2019	2019	2019
Sales	C$18,620	¥1,562	$14,490
Operating loss	(2,464)	(207)	(1,920)
Loss before income taxes	(3,205)	(269)	(2,495)
Net loss attributable to owners of the parent	(1,601)	(134)	(1,243)

	Canadian Dollars	Yen	U.S. Dollars
Per share of common stock:			
Basic net loss	C$(0.10)	¥(8.60)	$(0.08)

Outline of the method of calculation for the impact above:

The estimated impact on the consolidated financial results was calculated based on the difference in sales and profit information calculated assuming the business combination had been completed at the beginning of the fiscal year and it included in the consolidated financial results.

The information above is not necessarily indicative of actual future results, and also does not indicate actual results of operation in the case that the business combination had been completed at the beginning of the current fiscal year.

6. INVESTMENT SECURITIES

Investment securities as of June 30, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	**2019**
Noncurrent:			
Marketable equity securities	**¥4,001**	¥5,077	**$37,117**
Government and corporate bonds	**0**	533	**0**
Other	**0**	236	**0**
Total	**¥4,001**	¥5,846	**$37,117**

The costs and aggregate fair values of investment securities at June 30, 2019 and 2018, were as follows:

	Millions of Yen			
June 30, 2019	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**¥2,865**	**¥982**	**¥322**	**¥3,525**
Debt securities	**—**	**—**	**—**	**—**
Other	**—**	**—**	**—**	**—**
Total	**¥2,865**	**¥982**	**¥322**	**¥3,525**

	Millions of Yen			
June 30, 2018	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥2,863	¥1,778	¥16	¥4,625
Debt securities	568	—	¥35	533
Other	236	—	—	236
Total	¥3,667	¥1,778	¥51	¥5,394

	Thousands of U.S. Dollars			
June 30, 2019	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**$26,578**	**$9,110**	**$2,987**	**$32,701**
Debt securities	**—**	**—**	**—**	**—**
Other	**—**	**—**	**—**	**—**
Total	**$26,578**	**$9,110**	**$2,987**	**$32,701**

The proceeds and realized gains and losses of the available-for-sale securities, which were sold during the years ended June 30, 2019 and 2018, were as follows:

	Millions of Yen		
June 30, 2019	Proceeds	Realized Gains	Realized Losses
Securities classified as:			
Available-for-sale:			
Equity securities	**¥—**	**¥—**	**¥—**
Debt securities	**552**	**15**	**31**
Other	**—**	**—**	**—**
Total	**¥552**	**¥15**	**¥31**

	Millions of Yen		
June 30, 2018	Proceeds	Realized Gains	Realized Losses
Securities classified as:			
Available-for-sale:			
Equity securities	¥2,733	¥437	¥373
Debt securities	—	—	—
Other	—	—	—
Total	¥2,733	¥437	¥373

	Thousands of U.S. Dollars		
June 30, 2019	Proceeds	Realized Gains	Realized Losses
Securities classified as:			
Available-for-sale:			
Equity securities	**$ —**	**$ —**	**$ —**
Debt securities	**5,121**	**139**	**288**
Other	**—**	**—**	**—**
Total	**$5,121**	**$139**	**$288**

7. INVENTORIES

Inventories at June 30, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	**2019**
Merchandise	**¥30**	¥6	**$278**
Work in process	**5,709**	7,943	**52,962**
Raw materials and supplies	**182**	220	**1,688**
Total	**¥5,921**	¥8,169	**$54,928**

8. INVESTMENT PROPERTY

The Group owns some rental properties, such as office buildings and land in the Tokyo metropolitan area. The net of rental income and operating expenses for those rental properties was ¥732 million ($6,791 thousand) and ¥404 million for the fiscal years ended June 30, 2019 and 2018, respectively.
In addition, the carrying amounts, changes in such balances, and market prices of such properties are as follows:

Millions of Yen			
Carrying Amount			Fair Value
June 30, 2018	Decrease	June 30, 2019	June 30, 2019
¥2,300	**¥(34)**	**¥2,266**	**¥5,402**

Millions of Yen			
Carrying Amount			Fair Value
June 30, 2017	Decrease	June 30, 2018	June 30, 2018
¥2,326	¥(26)	¥2,300	¥5,241

Thousands of U.S. Dollars			
Carrying Amount			Fair Value
June 30, 2018	Decrease	June 30, 2019	June 30, 2019
$21,336	**$(315)**	**$21,021**	**$50,114**

Notes:
1. Carrying amount recognized in the consolidated balance sheets is net of accumulated depreciation and accumulated impairment losses, if any.
2. Decrease during both of the fiscal year ended June 30, 2018 and the fiscal year ended June 30, 2019, primarily represents depreciation of buildings of stores for rent.
3. Fair value of properties was measured by the Group in accordance with the Real-Estate Appraisal Standard.
4. Investment property under construction is not included in the above table because it is difficult to measure their fair value during an early phase of development. This amount in the consolidated balance sheet was ¥1,484 million ($13,767 thousand) and ¥1,071 million for the fiscal years ended June 30, 2019 and 2018, respectively.

9. REDUCTION ENTRY

In the case of the acquisition expenses of the Group that have been subsidized by the national government, the amount of such subsidies is offset against the acquisition cost of the corresponding property, plant and equipment.

The amount of reduction entry by accounts under property, plant and equipment at June 30, 2019 and 2018, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	**2019**
Buildings and structures	**¥19**	¥19	**$176**
Machinery and equipment	**167**	167	**1,549**
Total	**¥186**	¥186	**$1,725**

10. INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED SUBSIDIARIES AND ASSOCIATED COMPANIES

Investments in and advances to unconsolidated subsidiaries and associated companies at June 30, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	**2019**
Investments	**¥3,227**	¥3,331	**$29,936**
Advances	**2,267**	1,670	**21,031**
Total	**¥5,494**	¥5,001	**$50,967**

11. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Long-term debt at June 30, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	**2019**
Unsecured loans from banks due serially to 2029 with interest rates ranging from 0.250% to 4.250%	**¥19,722**	¥20,985	**$182,958**
Obligation under finance leases	**112**	52	**1,039**
Total	**19,834**	21,037	**183,997**
Less current portion	**(2,120)**	(2,072)	**(19,667)**
Long-term debt, less current portion	**¥17,714**	¥18,965	**$164,330**

Annual maturities of long-term debt at June 30, 2019, for the next five years and thereafter were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
Years Ending June 30	Long-Term Debt	Lease Obligations	Long-Term Debt	Lease Obligations
2020	¥2,083	¥38	$19,324	$353
2021	2,285	30	21,198	278
2022	6,014	21	55,790	195
2023	2,299	16	21,328	148
2024	2,149	6	19,936	56
2025 and thereafter	4,892	1	45,382	9
Total	¥19,722	¥112	$182,958	$1,039

The Group and four financial institutions have entered into overdraft contracts and a commitment line contract by syndicated loan over three years. These commitment line contracts included restrictive financial covenants for each financial institution.

12. RETIREMENT AND PENSION PLANS

The Company and certain consolidated subsidiaries have severance payment plans for employees and directors. Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service, and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain consolidated subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

The liabilities for retirement benefits at June 30, 2019 and 2018, for directors were ¥30 million ($278 thousand) and ¥32 million, respectively. The retirement benefits for directors are paid subject to the approval of the shareholders.

(1) The changes in defined benefit obligation for the years ended June 30, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	**2019**
Balance at beginning of year	**¥15,718**	¥15,386	**$145,814**
Current service cost	**1,155**	1,121	**10,715**
Interest cost	**109**	107	**1,011**
Actuarial (gains) losses	**(64)**	92	**(594)**
Benefits paid	**(1,067)**	(1,050)	**(9,898)**
Others	**—**	62	**—**
Balance at end of year	**¥15,851**	¥15,718	**$147,048**

(2) The changes in plan assets for the years ended June 30, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	**2019**
Balance at beginning of year	**¥16,557**	¥15,500	**$153,597**
Expected return on plan assets	**248**	311	**2,301**
Actuarial (gains) losses	**(400)**	381	**(3,711)**
Contributions from the employer	**1,018**	1,126	**9,444**
Benefits paid	**(811)**	(814)	**(7,524)**
Others	**—**	53	**—**
Balance at end of year	**¥16,612**	¥16,557	**$154,107**

(3) The changes in defined benefit obligation under the simplified method for the years ended June 30, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	**2019**
Balance at beginning of year	**¥632**	¥684	**$5,863**
Periodic benefit cost	**51**	61	**473**
Benefits paid	**(47)**	(112)	**(436)**
Others	**—**	0	**—**
Balance at end of year	**¥636**	¥633	**$5,900**

(4) The reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of June 30, 2019 and 2018, was as follows (including the benefit plans for which the simplified method was applied):

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	**2019**
Funded defined benefit obligation	**¥12,669**	¥12,477	**$117,529**
Plan assets	**(16,612)**	(16,557)	**(154,108)**
Total	**(3,943)**	(4,080)	**(36,579)**
Unfunded defined benefit obligation	**3,818**	3,874	**35,419**
Net liability arising from defined benefit obligation	**(125)**	(206)	**(1,160)**
Liability for retirement benefits	**3,818**	3,874	**35,419**
Asset for retirement benefits	**3,943**	4,080	**36,579**
Net liability arising from defined benefit obligation	**¥(125)**	¥(206)	**$(1,160)**

(5) The components of net periodic benefit costs for the years ended June 30, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	**2019**
Service cost	**¥1,155**	¥1,121	**$10,715**
Interest cost	**109**	107	**1,011**
Expected return on plan assets	**(248)**	(311)	**(2,301)**
Recognized actuarial gains	**(112)**	(91)	**(1,039)**
Amortization of prior service cost	**27**	28	**251**
Periodic benefit cost under simplified method	**51**	61	**473**
Others	**—**	9	**—**
Net periodic benefit costs	**¥982**	¥924	**$9,110**

(6) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended June 30, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	**2019**
Prior service cost	**¥(27)**	¥(28)	**$(251)**
Actuarial losses (gains)	**447**	(198)	**4,147**
Total	**¥420**	¥(226)	**$3,896**

(7) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of June 30, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	**2019**
Unrecognized prior service cost	**¥174**	¥201	**$1,614**
Unrecognized actuarial gains	**(1,174)**	(1,621)	**(10,891)**
Total	**¥(1,000)**	¥(1,420)	**$(9,277)**

(8) Plan assets

a. Components of plan assets

Plan assets as of June 30, 2019 and 2018, consisted of the following:

	2019	2018
Debt investments	**38%**	34%
Equity investments	**40**	44
Cash and cash equivalents	**20**	19
Others	**2**	3
Total	**100%**	100%

b. Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return, which are expected currently and in the future from the various components of the plan assets.

(9) Assumptions used for the years ended June 30, 2019 and 2018, were set forth as follows:

	2019	2018
Discount rate	**Principally 0.7%**	Principally 0.7%
Expected rate of return on plan assets	**1.5**	2.0
Lump-sum election rate	**90.0**	90.0

(10) Multiemployer pension plan

The Company and certain consolidated subsidiaries participate in a multiemployer plan for which the Company cannot reasonably calculate the amount of plan assets corresponding to the contributions made by the Company. Therefore, it is accounted for using the same method as a defined contribution plan.
The Ministry of Health, Labor and Welfare approved exemption of returning the previous portion for the substitution part of employees' pension funds. With this, the system was transferred from employees' pension plan to corporate pension plan.

The contributions to such multiemployer plan were ¥532 million ($4,935 thousand) and ¥512 million for the years ended June 30, 2019 and 2018, respectively.

a. The funded status of the multiemployer plan as of June 30, 2019 and 2018, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	**2019**
Plan assets	**¥79,656**	¥75,026	**$738,958**
Sum of actuarial liabilities of pension plan and minimum actuarial reserve	**63,109**	62,372	**585,454**
Net balance	**¥16,547**	¥12,654	**$153,504**

The net balance above is mainly the result of past service cost of ¥(7,900) million ($(73,287) thousand) for 2019 and ¥(10,223) million for 2018, and surplus carried forward of ¥24,448 million ($226,801 thousand) for 2019, and ¥22,877 million for 2018. Past service cost under the plan is amortized on a straight-line basis over 15 years, and the special contributions of ¥380 million ($3,525 thousand) for 2019 and ¥366 million for 2018, which are utilized for such amortization, were expensed in the consolidated statement of income and comprehensive income of the Group.

b. The contribution ratio of the Group in the multiemployer plan for the years ended June 30, 2019 and 2018, was as follows:

	2019	2018
The contribution ratio of the Group in the multiemployer plan	**13.5%**	13.6%

The ratios above do not represent the actual actuarial liability ratio of the Group.

13. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria, including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/Decreases and Transfer of Common Stock, Reserve, and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

(c) Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity.
The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

14. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.6% and 30.9% for the years ended June 30, 2019 and 2018, respectively.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities at June 30, 2019 and 2018, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	**2019**
Deferred tax assets:			
Investment in subsidiaries	**¥18**	¥47	**$167**
Accrued bonuses	**598**	604	**5,548**
Net defined benefit liability	**810**	700	**7,514**
Liability for retirement benefits for directors	**25**	5	**232**
Allowance for anticipated project loss	**37**	54	**343**
Overdepreciation	**215**	142	**1,995**
Loss on impairment of long-lived assets	**85**	85	**789**
Tax loss carryforwards	**216**	16	**2,003**
Other	**762**	620	**7,069**
Less valuation allowance	**(593)**	(304)	**(5,501)**
Total	**2,173**	1,969	**20,159**
Deferred tax liabilities:			
Net defined benefit asset	**827**	742	**7,672**
Reserve for deferred gains on sale of property	**747**	758	**6,930**
Reserve for special account for advanced depreciation of property	**564**	265	**5,232**
Unrealized gain on available-for-sale securities	**200**	528	**1,855**
The valuation differences by using the full fair value method	**943**	842	**8,748**
Other	**208**	88	**1,930**
Total	**3,489**	3,223	**32,367**
Net deferred tax assets	**¥(1,316)**	¥(1,254)	**$(12,208)**

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income and comprehensive income for the year ended June 30, 2019, with the corresponding figures for 2018, is as follows:

	2019	2018
Normal effective statutory tax rate	**30.6%**	30.9%
Per capita levy of local tax	**2.5**	1.9
Expenses not deductible for tax purposes	**1.8**	2.4
Foreign income tax	**5.5**	4.0
Tax credit	**(4.4)**	(3.2)
Valuation allowance	**2.2**	1.5
Amortization of goodwill	**2.5**	2.0
Income taxes for prior periods	**—**	0.8
Lower income tax rates applicable to certain foreign subsidiaries	**(3.0)**	(1.0)
Other – net	**1.3**	(3.6)
Actual effective tax rate	**39.0%**	35.7%

At June 30, 2019, certain subsidiaries have tax loss carryforwards aggregating approximately ¥645 million ($5,984 thousand), which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

	Millions of Yen	Thousands of U.S. Dollars
June 30, 2024	¥52	$483
June 30, 2025	165	1,531
June 30, 2026	123	1,141
June 30, 2027	51	473
June 30, 2029	254	2,356
Total	¥645	$5,984

15. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥1,101 million ($10,214 thousand) and ¥913 million for the years ended June 30, 2019 and 2018, respectively.

16. LEASES

Lessee

The minimum rental commitments under noncancelable operating leases at June 30, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	**2019**
Due within one year	**¥1,277**	¥1,148	**$11,847**
Due after one year	**4,320**	3,351	**40,076**
Total	**¥5,597**	¥4,499	**$51,923**

17. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

The Group uses financial instruments (mainly bank loans) based on its capital financing plan. Cash surpluses, if any, are invested in low-risk financial assets. Derivatives are used not for speculative purposes, but to manage exposure to financial risks as described in (2) below. To clarify the accountability for transactions, the Group set up an investment committee that examines basic principles of transactions and each financial instrument.

(2) Nature and Extent of Risks Arising from Financial Instruments

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. Receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates. Marketable and investment securities, mainly held-to-maturity securities and equity instruments of customers and suppliers of the Group, are exposed to the risk of market price fluctuations.

Payment terms of payables, such as trade notes and trade accounts, are less than one year. Long-term debt and obligation under finance leases are principally for the procurement of the funds necessary for investments in facilities and equipment.

Foreign-currency-denominated loans are exposed to the market risks from changes in interest rates and foreign currency exchange rates. A portion of foreign-currency-denominated loans is hedged by using interest rate and currency swaps as derivative financial instruments. Please see Note 18 for more details about derivatives.

(3) Risk Management for Financial Instruments

Credit Risk Management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of major customers by each business administration department to identify the default risk of customers at an early stage. With respect to held-to-maturity financial investments, the Group manages exposure to credit risk by limiting investments to high-credit-rated bonds in accordance with its internal guidelines.

The maximum credit risk exposure of financial assets is limited to their carrying amounts as of June 30, 2019.

Market risk management

The Group uses interest rate and currency swaps as derivative financial instruments to manage its exposure to fluctuations in foreign exchange rates and interest rates of foreign-currency-denominated loans.

Investment securities are managed by monitoring market values and the financial position of issuers on a regular basis.

The basic principles of derivative transactions have been approved by the investment committee based on the internal guidelines, which prescribe the authority and the limits for each transaction by the corporate treasury department. Reconciliation of the transaction and balances with customers is made, and the transaction data is reported to the chief financial officer on a monthly basis.

Liquidity risk management

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on its maturity dates. The Group manages its liquidity risk by concluding commitment line and overdraft contracts, along with adequate financial planning by the corporate treasury department.

(4) Concentration of Credit Risk

27.9% of total receivables are from three major customers of the Group as of June 30, 2019.

(5) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, another rational valuation technique is used instead.

(a) Fair value of financial instruments

	Millions of Yen		
June 30, 2019	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	**¥12,663**	**¥12,663**	**¥ —**
Receivables	**30,258**	**30,258**	**—**
Investment securities	**3,525**	**3,525**	**—**
Total	**¥46,446**	**¥46,446**	**¥ —**
Long-term debt (Note)	**¥19,722**	**¥19,642**	**¥(80)**
Total	**¥19,722**	**¥19,642**	**¥(80)**
Derivatives	**¥(133)**	**¥(133)**	**¥ —**

	Millions of Yen		
June 30, 2018	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥15,233	¥15,233	¥ —
Receivables	26,606	26,606	—
Investment securities	5,394	5,394	—
Total	¥47,233	¥47,233	¥ —
Long-term debt (Note)	¥20,985	¥20,789	¥(196)
Total	¥20,985	¥20,789	¥(196)
Derivatives	¥6	¥6	¥ —

	Thousands of U.S. Dollars		
June 30, 2019	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	**$117,473**	**$117,473**	**$ —**
Marketable securities Receivables	**280,699**	**280,699**	**—**
Investment securities	**32,701**	**32,701**	**—**
Total	**$430,873**	**$430,873**	**$ —**
Long-term debt (Note)	**$182,958**	**$182,216**	**$(742)**
Total	**$182,958**	**$182,216**	**$(742)**
Derivatives	**$(1,234)**	**$(1,234)**	**$ —**

Note: Long-term debt includes its current portion, and does not include obligation under finance leases.

Cash and cash equivalents, receivables, and payables

The carrying values of these financial instruments approximate fair value because of their short maturities.

Investment securities

The fair values of investment securities are measured at the quoted market price of the stock exchange for the equity instruments and at the quoted price obtained from the financial institution for certain debt instruments. Fair value information for investment securities by classification is included in Note 6.

Long-term debt

The fair value of the "fixed rate" long-term debt is computed by applying a discount rate to the total of the principal and interest. The discount interest rate is based on the assumed interest rate if similar new debt was entered into. The fair value of the "floating rate" long-term debt is assumed as the carrying value because the interest rate of the debt reflects the current market interest rate and the Company's credit score is stable.
A portion of the long-term debt qualified for integrated accounting treatment (special treatment and appropriated treatment) for interest rate and currency swaps is calculated by discounting the total amount of the principal and interest, with the relevant interest rate and currency swaps to which the special integrated accounting treatment has been applied, based on the reasonably estimated interest rate if similar new debt is entered into.

Derivatives

Fair value information for derivatives is included in Note 18.
The fair value of the derivatives, including interest rate and currency swaps under integrated accounting treatment, is included in the fair value of the long-term debt, because the swaps are accounted for as part of the long-term debt.

(b)The carrying amount of financial instruments whose fair values cannot be reliably determined is as follows:

	Millions of Yen		Thousands of U.S. Dollars
June 30, 2019 and 2018	**2019**	2018	**2019**
Investments in equity instruments that do not have a quoted market price in an active market	**¥3,705**	¥3,783	**$34,371**

The impairment loss on investments in equity instruments that do not have a quoted market price in an active market for the years ended June 30, 2019 and 2018, was ¥311 million ($2,885 thousand) and ¥154 million, respectively.

(6) Maturity Analysis for Financial Assets and Securities with Contractual Maturities

	Millions of Yen			
June 30, 2019	Due in one Year or Less	Due after one Year through five Years	Due after five Years through ten Years	Due after ten Years
Cash and cash equivalents	**¥12,663**	**¥ —**	**¥ —**	**¥ —**
Receivables	**30,258**	**—**	**—**	**—**
Investment securities				
Available-for-sale securities with contractual maturities	**—**	**—**	**—**	**—**
Total	**¥42,921**	**¥ —**	**¥ —**	**¥ —**

	Millions of Yen			
June 30, 2018	Due in one Year or Less	Due after one Year through five Years	Due after five Years through ten Years	Due after ten Years
Cash and cash equivalents	¥15,233	¥ —	¥ —	¥ —
Receivables	26,606	—	—	—
Investment securities				
Available-for-sale securities with contractual maturities	—	—	—	—
Total	¥41,839	¥ —	¥ —	¥ —

	Thousands of U.S. Dollars			
June 30, 2019	Due in one Year or Less	Due after one Year through five Years	Due after five Years through ten Years	Due after ten Years
Cash and cash equivalents	**$117,473**	**$ —**	**$ —**	**$ —**
Receivables	**280,699**	**—**	**—**	**—**
Investment securities				
Available-for-sale securities with contractual maturities	**—**	**—**	**—**	**—**
Total	**$398,172**	**$ —**	**$ —**	**$ —**

Please see Note 11 for annual maturities of long-term debt.

18. DERIVATIVES

The Group uses derivative financial instruments to manage its exposure to fluctuations in foreign exchange rates and interest rates. The derivatives used by the Group are interest rate and currency swaps.
It is the Group's policy to use derivatives only for the purpose of reducing market risks associated with liabilities, and not for trading or speculative purposes.

Because the counterparties to these derivatives are limited to highly reputable domestic banks, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies, which regulate authorization and credit limit amounts.

Derivative Transactions to Which Hedge Accounting is Not Applied

		Millions of Yen			
June 30, 2019	Transactions	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain
Interest rate and currency swaps: (fixed-rate payment, floating-rate receipt) (Japanese yen payment, U.S. dollars receipt)	Off-market transactions	**¥4,061**	**¥3,481**	**¥(133)**	**¥(133)**

		Millions of Yen			
June 30, 2018	Transactions	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain
Interest rate and currency swaps: (fixed-rate payment, floating-rate receipt) (Japanese yen payment, U.S. dollars receipt)	Off-market transactions	¥4,641	¥4,061	¥6	¥6

		Thousands of U.S. Dollars			
June 30, 2019	Transactions	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain
Interest rate and currency swaps: (fixed-rate payment, floating-rate receipt) (Japanese yen payment, U.S. dollars receipt)	Off-market transactions	**$37,673**	**$32,293**	**$(1,234)**	**$(1,234)**

Notes:
1. The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.
2. The contact amounts of derivatives, which are shown in the above table, do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

Derivative Transactions to Which Hedge Accounting is Applied

June 30, 2019	Hedge accounting method	Hedged Item	Millions of Yen Contract Amount	Millions of Yen Contract Amount Due after One Year	Millions of Yen Fair Value
Interest rate and currency swaps: (fixed-rate payment, floating-rate receipt) (Japanese yen payment, U.S. dollars receipt)	Integrated treatment of interest rate and currency swaps (Special treatment, Appropriated treatment)	Long-term debt	**¥2,707**	**¥2,321**	(Note 1)

June 30, 2018	Hedge accounting method	Hedged Item	Millions of Yen Contract Amount	Millions of Yen Contract Amount Due after One Year	Millions of Yen Fair Value
Interest rate and currency swaps: (fixed-rate payment, floating-rate receipt) (Japanese yen payment, U.S. dollars receipt)	Integrated treatment of interest rate and currency swaps (Special treatment, Appropriated treatment)	Long-term debt	¥3,094	¥2,707	(Note 1)

June 30, 2019	Hedge accounting method	Hedged Item	Thousands of U.S. Dollars Contract Amount	Thousands of U.S. Dollars Contract Amount Due after One Year	Thousands of U.S. Dollars Fair Value
Interest rate and currency swaps: (fixed-rate payment, floating-rate receipt) (Japanese yen payment, U.S. dollars receipt)	Integrated treatment of interest rate and currency swaps (Special treatment, Appropriated treatment)	Long-term debt	**$25,112**	**$21,532**	(Note 1)

Notes:
1. The above interest rate and currency swaps, which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income. In addition, the fair value of such interest rate and currency swaps is included in that of long-term debt.
2. The contract amounts of derivatives, which are shown in the above table, do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

19. CONTINGENT LIABILITIES

On June 19, 2014, Nippon Civic Consulting Engineers Co., Ltd. ("NCC"), a consolidated subsidiary of the Company, was sued by Osaka Prefecture for damages resulting from a project related to designing a shield tunnel under tort liability. The amount of the damages claimed, which includes a 5% per annum delinquency charge, was ¥750 million ($6,958 thousand). In addition, Osaka Prefecture expanded its claim to ¥8,643 million ($80,180 thousand), which also includes a 5% per annum delinquency charge, via a written petition for the amendment of the claim dated February 29, 2016. NCC has concluded that it did not engage in an illegal act in the course of the project and intends to contest the claims brought forth by Osaka Prefecture in court.

Due to the court petition by Osaka Prefecture, a decision was made to execute a provisional seizure concerning the said claims in June 2014. Therefore, in July 2014, NCC deposited the money for release from a provisional seizure of ¥750 million ($6,958 thousand) with the Legal Affairs Bureau, which is included in other assets under investments and other assets in the consolidated balance sheet.

20. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended June 30, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	**2019**
Unrealized gain (loss) on available-for-sale securities:			
Losses (gains) arising during the year	**¥(1,099)**	¥193	**$(10,196)**
Reclassification adjustments to profit or loss	**31**	61	**288**
Amount before income tax effect	**(1,068)**	254	**(9,908)**
Income tax effect	**328**	(77)	**3,043**
Total	**¥(740)**	¥177	**$(6,865)**
Foreign currency translation adjustments:			
Adjustments arising during the year	**¥(933)**	¥(242)	**$(8,655)**
Reclassification adjustments to profit or loss	**—**	—	**—**
Amount before income tax effect	**(933)**	(242)	**(8,655)**
Income tax effect	**—**	—	**—**
Total	**¥(933)**	¥(242)	**$(8,655)**
Defined retirement benefit plans:			
Adjustments arising during the year	**¥(336)**	¥290	**$(3,117)**
Reclassification adjustments to profit or loss	**(84)**	(64)	**(779)**
Amount before income tax effect	**(420)**	226	**(3,896)**
Income tax effect	**130**	(71)	**1,206**
Total	**¥(290)**	¥155	**$(2,690)**
Share of other comprehensive income in associates accounted for using equity method:			
Gains arising during the year	**¥(91)**	¥ —	**$(844)**
Total	**¥(91)**	¥ —	**$(844)**
Total other comprehensive income	**¥(2,054)**	¥90	**$(19,054)**

21. SUBSEQUENT EVENTS

a. Appropriations of Retained Earnings

On August 30, 2019, the following appropriation of retained earnings at June 30, 2019, was resolved by the extraordinary Board of Directors' meeting:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥75 ($0.70) per share	¥1,193	$11,067

The total amount of the dividends above includes ¥17 million ($158 thousand) in dividends on the Company's shares owned by "ESOP."

b. Issuance of new shares as restricted stock compensation

The Company decided to issue new stocks as restricted stock compensation at the extraordinary Board of Directors' meeting held on September 26, 2019, as follows:

The Company aims to have the directors (not including outside directors; "Eligible Directors") share benefits and risks of stock price fluctuations with shareholders and further enhance their willingness to contribute to improving stock prices and enhancing corporate value. Therefore, the Company decided, at the Board of Directors held on August 14, 2017, to introduce a restricted stock compensation system (the "System"), which will issue restricted stock to Eligible Directors.
Furthermore, the 73rd Annual General Meeting of Shareholders held on September 28, 2017, approved, under the System, setting the total amount of monetary compensation claims payable to the Eligible Directors as compensation related to restricted stock at a level where it does "not exceed an annual amount of ¥60 million." In addition, the total number of 50,000 shares, which are restricted stock to be allotted to Eligible Directors will be the upper limit of the number of restricted shares to be allotted in each fiscal year, and the transfer restriction period of restricted stock will be between one year to five years, determined by the Board of Directors.

(1) Payment date	October 25, 2019
(2) Class and number of shares to be issued	13,514 shares of common stock of the Company
(3) Issue price	¥3,125 per share
(4) Total issue price of shares to be issued	¥42,231,250
(5) Capitalization amount	¥1,563 per share
(6) Total capitalization amount	¥21,122,382
(7) Method of offer or allotment	Allotment of specified restricted stocks
(8) Method of contribution	In-kind contribution of monetary compensation claims
(9) Allottees, number thereof and number of shares to be allotted	13,514 shares to eight directors of the company (excluding outside directors)
(10) Transfer restriction period	October 25, 2019 to October 24, 2022
(11) Other	Issue of new shares to be allotted is conditioned on the securities registration statement taking effect in accordance with the Financial Instruments and Exchange Act.

c. Purchase of treasury shares

At the meeting of Board of Directors held on August 13, 2019, the Company resolved as follows regarding matters concerning the acquisition of treasury shares in accordance with the provisions of Article 156 of the Companies Act, which shall be applied mutatis mutandis pursuant to the provision of Paragraph 3 of Article 165 of the same Act.

1. Reason for the acquisition of treasury shares
   To raise the value per share of stock by improving capital efficiency and enhancing shareholder return.

2. Details of matters pertaining to the acquisition
(1) Type of shares to be acquired
Common stock of the Company
(2) Total number of shares available for acquisition
800,000 shares (upper limit) (5.1% of total issued shares (excluding treasury shares))
(3) Total purchase price of shares
¥2 billion (upper limit)
(4) Acquisition period
From August 14, 2019 to June 30, 2020
(5) Acquisition method
Market purchase on the Tokyo Stock Exchange
(i) Plan to acquire up to 500,000 shares of the “(2) Total number of shares available for acquisition” through the Off-Auction Own Share Repurchase Trading (ToSTNeT -3) system.
(ii) Of the “2. (2) Total number of shares available for acquisition,” make a market purchase under the trust method up to the number of shares after deducting the shares acquired pursuant to (i) in the preceding paragraph.

3. Status of acquisition of treasury shares as of August 31, 2019
(1) Type of shares acquired
Common stock of the Company
(2) Total number of shares acquired
420,500 shares
(3) Total purchase price of shares
¥961 million
(4) Acquisition period
From August 14, 2019 to August 31, 2019
(5) Acquisition method
Market purchase on the Tokyo Stock Exchange

22. SEGMENT INFORMATION

Under ASBJ Statement No. 17, “Accounting Standard for Segment Information Disclosures,” and ASBJ Guidance No. 20, “Guidance on Accounting Standard for Segment Information Disclosures,” an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available, and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) Outline of reportable segments

Reportable segments of the Company are determined as segments whose separate financial information is accessible from among the constituent units of the Company and are periodically used by the Board of Directors to determine the allocation of management resources and to evaluate achievements.
The Company has business headquarters separated by type of products and services. Each business headquarters formulates a comprehensive strategy based on the products and services and engages in conducting business activities.
In line with the above, the Company is composed of segments divided by products and services, with each business headquarters serving as the foundation, and the six reportable segments are “Domestic Consulting Operations,” “International Consulting Operations,” “Power Engineering Operations,” “Urban & Spatial Development Operations,” “Energy Business Operations,” and “Real Estate Leasing Operations.”

“Domestic Consulting Operations” engages in businesses within Japan, such as site surveying, planning, evaluation/assessment, designing, construction management, operational advice in the fields of water resources development, energy development, agricultural development, transportation, urban and regional development, management of natural and social environment, etc.

“International Consulting Operations” engages in businesses outside of Japan, such as technical studies, planning, reviews, designing, construction supervision, operational advice in the fields of water resources development, energy development, agricultural development, transportation, urban and regional development, social development, management of natural and social environment, etc.
“Power Engineering Operations” engages in manufacturing and sale of control devices and systems for power generating and transforming stations, water turbines, power generators, voltage converters, electric power-related equipment such as line taps for power transmission and distribution networks. It also engages in designing and implementation of various construction works for electric power and general electric facilities, including construction for power generation/transformation/transmission/distribution and civil engineering.
“Urban & Spatial Development Operations” engages in urban and spatial development business that includes urban planning and architectural design.
“Energy Business Operations” engages in research, development, design, construction, management, operation, support, and system/technology development of power generation/energy management operations utilizing distributed energy resources.
“Real Estate Leasing Operations” engages in the leasing of real estate within Japan.

(2) Methods of Measurement for the Amount of Sales, Profit (Loss), Assets, Liabilities, and Other Items for Each Reportable Segment

Accounting treatments for reportable business segments closely match those shown in Note 2, “Summary of Significant Accounting Policies.”

Inter-segment net sales and transfers are based on the third-party transaction prices.

In addition, from the beginning of the fiscal year ended June 30, 2019, the Company has adapted “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No.28, February 16, 2018), etc. The accounting standard is retrospectively applied to the segment assets as of June 30, 2018.

(3) Sales, Profit (Loss), Assets, Liabilities, and Other Items

Millions of Yen

2019

	Reportable Segment										
	Domestic Consulting	International Consulting	Power Engineering	Urban & Spatial Development	Energy Business	Real Estate Leasing	**Total**	Others	**Total**	Reconciliations	Consolidated
Sales											
Sales to external customers	¥49,593	¥24,929	¥16,532	¥15,360	¥719	¥440	¥107,573	¥1,016	¥108,589	¥ —	¥108,589
Intersegment sales	743	72	505	141	—	165	1,626	973	2,599	(2,599)	—
Total sales	¥50,336	¥25,001	¥17,037	¥15,501	¥719	¥605	¥109,199	¥1,989	¥111,188	¥(2,599)	¥108,589
Segment profit (loss)	4,977	575	2,047	114	(392)	732	8,053	(2,417)	5,636	(51)	5,585
Segment assets	20,591	23,181	10,639	23,312	5,462	4,482	87,667	41,033	128,700	(15,525)	113,175
Other:											
Depreciation	160	77	233	720	138	36	1,364	358	1,722	(12)	1,710
Amortization of goodwill	—	—	—	482	—	—	482	—	482	—	482
Interest income	25	53	4	47	125	—	254	380	634	(411)	223
Interest expense	74	194	80	220	39	—	607	81	688	(411)	277
Equity in profit (losses) of associated company	—	—	33	—	(139)	—	(106)	—	(106)	(23)	(129)
Investments in associates accounted for using equity method	—	—	200	—	1,203	—	1,403	—	1,403	(23)	1,380
Increase in property, plant, and intangible assets	228	114	213	207	5	1	768	3,188	3,956	—	3,956

Millions of Yen

2018

	Reportable Segment							Others	Total	Reconciliations	Consolidated
	Domestic Consulting	International Consulting	Power Engineering	Urban & Spatial Development	Energy Business	Real Estate Leasing	Total				
Sales											
Sales to external customers	¥46,596	¥28,890	¥15,762	¥13,040	¥355	¥440	¥105,083	¥941	¥106,024	¥ —	¥106,024
Intersegment sales	430	47	270	27	—	165	939	1,030	1,969	(1,969)	—
Total sales	¥47,026	¥28,937	¥16,032	¥13,067	¥355	¥605	¥106,022	¥1,971	¥107,993	¥(1,969)	¥106,024
Segment profit (loss)	4,141	2,417	1,987	197	(53)	404	9,093	(2,412)	6,681	40	6,721
Segment assets	19,669	24,725	8,989	22,388	4,983	4,198	84,952	39,673	124,625	(10,735)	113,890
Other:											
Depreciation	179	82	245	640	120	38	1,304	385	1,689	(21)	1,668
Amortization of goodwill	—	—	—	474	—	—	474	—	474	—	474
Interest income	22	55	4	42	3	—	126	322	448	(307)	141
Interest expense	54	152	52	167	42	—	467	63	530	(307)	223
Equity in profit of associated company	—	—	—	—	—	—	—	—	—	—	—
Investments in associates accounted for using equity method	—	—	—	—	632	—	632	—	632	—	632
Increase in property, plant, and intangible assets	155	166	214	179	48	—	762	2,785	3,547	—	3,547

Thousands of U.S. Dollars

2019

	Reportable Segment							Others	Total	Reconciliations	Consolidated
	Domestic Consulting	International Consulting	Power Engineering	Urban & Spatial Development	Energy Business	Real Estate Leasing	Total				
Sales											
Sales to external customers	**$460,068**	**$231,263**	**$153,365**	**$142,493**	**$6,670**	**$4,082**	**$997,941**	**$9,425**	**$1,007,366**	**$ —**	**$1,007,366**
Intersegment sales	**6,893**	**668**	**4,685**	**1,308**	**—**	**1,531**	**15,085**	**9,026**	**24,111**	**(24,111)**	**—**
Total sales	**$466,961**	**$231,931**	**$158,050**	**$143,801**	**$6,670**	**$5,613**	**$1,013,026**	**$18,451**	**$1,031,477**	**$(24,111)**	**$1,007,366**
Segment profit (loss)	**46,171**	**5,334**	**18,990**	**1,058**	**(3,637)**	**6,791**	**74,707**	**(22,423)**	**52,284**	**(473)**	**51,811**
Segment assets	**191,020**	**215,047**	**98,697**	**216,262**	**50,670**	**41,579**	**813,275**	**380,658**	**1,193,933**	**(144,023)**	**1,049,910**
Other:											
Depreciation	**1,484**	**714**	**2,162**	**6,679**	**1,280**	**334**	**12,653**	**3,322**	**15,975**	**(112)**	**15,863**
Amortization of goodwill	**—**	**—**	**—**	**4,471**	**—**	**—**	**4,471**	**—**	**4,471**	**—**	**4,471**
Interest income	**232**	**492**	**37**	**436**	**1,160**	**—**	**2,357**	**3,525**	**5,882**	**(3,813)**	**2,069**
Interest expense	**686**	**1,800**	**742**	**2,041**	**362**	**—**	**5,631**	**752**	**6,383**	**(3,813)**	**2,570**
Equity in profit (losses) of associated company	**—**	**—**	**306**	**—**	**(1,289)**	**—**	**(983)**	**—**	**(983)**	**(214)**	**(1,197)**
Investments in associates accounted for using equity method	**—**	**—**	**1,855**	**—**	**11,160**	**—**	**13,015**	**—**	**13,015**	**(213)**	**12,802**
Increase in property, plant, and intangible assets	**2,115**	**1,058**	**1,976**	**1,920**	**46**	**9**	**7,124**	**29,575**	**36,699**	**—**	**36,699**

Note:
The differences between total amounts for reportable segments and amounts in the consolidated balance sheets or consolidated statements of income and comprehensive income and the main details of these differences, which are related to difference adjustments at June 30, 2019 and 2018, were as follows:

Net sales

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	**2019**
Reportable segment total	**¥109,199**	¥106,022	**$1,013,026**
Other net sales	**1,989**	1,971	**18,451**
Elimination of intersegment transactions	**(2,599)**	(1,969)	**(24,111)**
Net sales in the consolidated statements of income and comprehensive income	**¥108,589**	¥106,024	**$1,007,366**

Profit

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	**2019**
Reportable segment total	**¥8,053**	¥9,093	**$74,707**
Other loss	**(2,417)**	(2,412)	**(22,423)**
Elimination of intersegment transactions	**(51)**	40	**(473)**
Nonoperating items	**(474)**	(159)	**(4,397)**
Operating income in the consolidated statements of income and comprehensive income	**¥5,111**	¥6,562	**$47,414**

Assets

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	**2019**
Reportable segment total	**¥87,667**	¥84,952	**$813,275**
Other property	**41,033**	39,673	**380,658**
Elimination of intersegment transactions	**(15,525)**	(10,735)	**(144,023)**
Total assets in the consolidated balance sheets	**¥113,175**	¥113,890	**$1,049,910**

Other items

	Millions of Yen			
	2019			
	Reportable Segment	Others	Reconciliations	**Total**
Depreciation	**¥1,364**	**¥358**	**¥(12)**	**¥1,710**
Amortization of goodwill	**482**	**—**	**—**	**482**
Interest income	**254**	**380**	**(411)**	**223**
Interest expense	**607**	**81**	**(411)**	**277**
Equity in profit (losses) of associated company	**(106)**	**—**	**(23)**	**(129)**
Investments in associates accounted for using equity method	**1,403**	**—**	**(23)**	**1,380**
Increase in property, plant, and intangible assets	**768**	**3,188**	**—**	**3,956**

	Millions of Yen			
	2018			
	Reportable Segment	Others	Reconciliations	**Total**
Depreciation	¥1,304	¥385	¥(21)	¥1,668
Amortization of goodwill	474	—	—	474
Interest income	126	322	(307)	141
Interest expense	467	63	(307)	223
Equity in profit of associated company	—	—	—	—
Investments in associates accounted for using equity method	632	—	—	632
Increase in property, plant, and intangible assets	762	2,785	—	3,547

	Thousands of U.S. Dollars			
	2019			
	Reportable Segment	Others	Reconciliations	**Total**
Depreciation	**$12,653**	**$3,322**	**$(112)**	**$15,863**
Amortization of goodwill	**4,471**	**—**	**—**	**4,471**
Interest income	**2,357**	**3,525**	**(3,813)**	**2,069**
Interest expense	**5,631**	**752**	**(3,813)**	**2,570**
Equity in profit (losses) of associated company	**(983)**	**—**	**(214)**	**(1,197)**
Investments in associates accounted for using equity method	**13,015**	**—**	**(213)**	**12,802**
Increase in property, plant, and intangible assets	**7,124**	**29,575**	**—**	**36,699**

Note:
The main reconciling items of interest income and expense are eliminations of corporate interest in accounting for control.

The information about geographical areas at June 30, 2019 and 2018 was as follows:

Sales

Millions of Yen							
2019							
Japan	Asia	Middle East	Africa	Latin America	Europe	Other	**Total**
¥66,924	**¥16,091**	**¥1,617**	**¥3,882**	**¥5,174**	**¥13,336**	**¥1,565**	**¥108,589**

Millions of Yen							
2018							
Japan	Asia	Middle East	Africa	Latin America	Europe	Other	**Total**
¥62,314	¥18,634	¥1,796	¥3,780	¥6,845	¥12,221	¥434	¥106,024

Thousands of U.S. Dollars							
2019							
Japan	Asia	Middle East	Africa	Latin America	Europe	Other	**Total**
$620,845	**$149,274**	**$15,001**	**$36,013**	**$47,999**	**$123,716**	**$14,518**	**$1,007,366**

Note:
Sales are classified by country or region based on the location of customers.

The information about major customers at June 30, 2019 and 2018 was as follows:

	Millions of Yen	
	2019	
Name of Customers	Sales	Related Segment Name
Ministry of Land, Infrastructure, Transport and Tourism ..	**¥17,508**	Domestic Consulting
Japan International Cooperation Agency	**8,773**	International Consulting
TEPCO Power Grid, Incorporated	**5,028**	Power Engineering

	Millions of Yen	
	2018	
Name of Customers	Sales	Related Segment Name
Ministry of Land, Infrastructure, Transport and Tourism ..	¥16,187	Domestic Consulting
Japan International Cooperation Agency	13,781	International Consulting
TEPCO Power Grid, Incorporated	5,606	Power Engineering

	Thousands of U.S. Dollars	
	2019	
Name of Customers	Sales	Related Segment Name
Ministry of Land, Infrastructure, Transport and Tourism ..	**$162,419**	Domestic Consulting
Japan International Cooperation Agency	**81,386**	International Consulting
TEPCO Power Grid, Incorporated	**46,644**	Power Engineering

The information about goodwill at June 30, 2019 and 2018 was as follows:

Goodwill

Millions of Yen									
2019									
Reportable Segment							Others	Elimination/ Corporate	Consolidated
Domestic Consulting	International Consulting	Power Engineering	Urban & Spatial Development	Energy Business	Real Estate Leasing	**Total**			
¥—	**¥—**	**¥—**	**¥482**	**¥—**	**¥—**	**¥482**	**¥—**	**¥—**	**¥482**
—	**—**	**—**	**8,193**	**—**	**—**	**8,193**	**—**	**—**	**8,193**

Millions of Yen									
2018									
Reportable Segment							Others	Elimination/ Corporate	Consolidated
Domestic Consulting	International Consulting	Power Engineering	Urban & Spatial Development	Energy Business	Real Estate Leasing	**Total**			
¥—	¥—	¥—	¥474	¥—	¥—	¥474	¥—	¥—	¥474
—	—	—	8,186	—	—	8,186	—	—	8,186

Thousands of U.S. Dollars									
2019									
Reportable Segment							Others	Elimination/ Corporate	Consolidated
Domestic Consulting	International Consulting	Power Engineering	Urban & Spatial Development	Energy Business	Real Estate Leasing	**Total**			
$—	**$—**	**$—**	**$4,471**	**$—**	**$—**	**$4,471**	**$—**	**$—**	**$4,471**
—	**—**	**—**	**76,005**	**—**	**—**	**76,005**	**—**	**—**	**76,005**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Nippon Koei Co., Ltd.:

We have audited the accompanying consolidated balance sheet of Nippon Koei Co., Ltd. and its consolidated subsidiaries as of June 30, 2019, and the related consolidated statements of income and comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nippon Koei Co., Ltd. and its consolidated subsidiaries as of June 30, 2019, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

September 27, 2019

Nonconsolidated Balance Sheet

Nippon Koei Co., Ltd.
June 30, 2019

ASSETS	Millions of Yen 2019	Millions of Yen 2018	Thousands of U.S. Dollars (Note 1) 2019
CURRENT ASSETS:			
Cash and cash equivalents	**¥4,478**	¥6,484	**$41,542**
Receivables:			
Trade notes	**19**	26	**176**
Trade accounts	**18,826**	16,449	**174,646**
Subsidiaries and associated companies	**650**	175	**6,030**
Other	**197**	187	**1,828**
Allowance for doubtful accounts	**(126)**	(4)	**(1,169)**
Short-term loan receivables	**1,984**	1,939	**18,405**
Inventories (Note 4)	**4,508**	5,915	**41,820**
Prepaid expenses and other current assets	**1,762**	2,083	**16,346**
Total current assets	**32,298**	33,254	**299,624**
PROPERTY, PLANT AND EQUIPMENT (Note 5)**:**			
Land	**14,375**	14,408	**133,355**
Buildings and structures	**11,595**	13,932	**107,565**
Machinery and equipment	**2,358**	2,320	**21,875**
Furniture and fixtures	**2,121**	2,052	**19,676**
Construction in progress	**5,926**	2,913	**54,975**
Lease assets	**87**	93	**807**
Total	**36,462**	35,718	**338,253**
Accumulated depreciation	**(12,049)**	(13,761)	**(111,777)**
Net property, plant and equipment	**24,413**	21,957	**226,476**
INVESTMENTS AND OTHER ASSETS:			
Investment securities	**3,911**	5,729	**36,282**
Investments in and advances to subsidiaries and associated companies (Note 6)	**30,067**	29,460	**278,927**
Other assets	**4,742**	5,504	**43,991**
Allowance for doubtful accounts	**(92)**	(95)	**(853)**
Total investments and other assets	**38,628**	40,598	**358,347**
TOTAL	**¥95,339**	¥95,809	**$884,447**

LIABILITIES AND EQUITY	Millions of Yen 2019	2018	Thousands of U.S. Dollars (Note 1) 2019
CURRENT LIABILITIES:			
Short-term borrowings (Note 7)	**¥6,430**	¥5,700	**$59,650**
Current portion of long-term debt (Note 7)	**1,977**	2,066	**18,340**
Payables:			
Trade accounts	**3,164**	2,651	**29,352**
Subsidiaries and associated companies	**563**	471	**5,223**
Other	**1,636**	1,766	**15,177**
Income taxes payable	**668**	470	**6,197**
Advances received	**4,063**	5,388	**37,692**
Deposits received (Note 3.(1))	**2,322**	1,803	**21,541**
Accrued bonuses	**1,470**	1,364	**13,637**
Allowance for anticipated project loss	**89**	129	**826**
Other current liabilities	**587**	73	**5,445**
Total current liabilities	**22,969**	21,881	**213,080**
LONG-TERM LIABILITIES:			
Long-term debt (Note 7)	**16,562**	18,964	**153,643**
Liability for retirement benefits (Note 2.h)	**103**	116	**956**
Allowance for environmental measures	**25**	25	**232**
Deferred tax liabilities (Note 9)	**1,449**	1,571	**13,442**
Other long-term liabilities	**364**	240	**3,377**
Total long-term liabilities	**18,503**	20,916	**171,650**
COMMITMENTS AND CONTINGENT LIABILITIES (Note 10)			
EQUITY (Notes 8 and 11):			
Common stock; authorized, 38,000,000 shares in 2019 and 38,000,000 shares in 2018; issued, 15,919,544 shares in 2019 and 15,905,049 shares in 2018	**7,438**	7,415	**69,001**
Capital surplus:			
Additional paid-in capital	**6,137**	6,114	**56,933**
Retained earnings:			
Legal reserve	**1,546**	1,546	**14,342**
Retained earnings - unappropriated	**39,028**	37,891	**362,058**
Unrealized gain on available-for-sale securities	**435**	1,156	**4,035**
Treasury stock—at cost 235,268 shares in 2019 and 364,422 shares in 2018	**(717)**	(1,110)	**(6,652)**
Total equity	**53,867**	53,012	**499,717**
TOTAL	**¥95,339**	¥95,809	**$884,447**

See notes to nonconsolidated financial statements.

Nonconsolidated Statement of Income

Nippon Koei Co., Ltd.
Year ended June 30, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	**2019**
NET SALES	**¥68,014**	¥64,782	**$630,957**
COST OF SALES	**49,338**	46,443	**457,702**
Gross profit	**18,676**	18,339	**173,255**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	**15,965**	14,860	**148,105**
Operating income	**2,711**	3,479	**25,150**
OTHER INCOME (EXPENSES):			
Interest and dividend income	**633**	695	**5,872**
Interest expense	**(273)**	(228)	**(2,533)**
Foreign currency exchange loss	**(128)**	(107)	**(1,187)**
Gain on sales of property, plant and equipment	**459**	1,279	**4,258**
Head office transfer cost		(833)	
Other-net	**(43)**	166	**(399)**
Other income-net	**648**	972	**6,011**
INCOME BEFORE INCOME TAXES	**3,359**	4,451	**31,161**
INCOME TAXES (Note 9)**:**			
Current	**835**	796	**7,746**
Deferred	**195**	734	**1,809**
Total income taxes	**1,030**	1,530	**9,555**
NET INCOME	**¥2,329**	¥2,921	**$21,606**

	Yen		U.S. Dollars (Note 1)
PER SHARE OF COMMON STOCK (Note 2.t)**:**			
Basic net income	**¥149.16**	¥188.56	**$1.38**
Cash dividends applicable to the year	**75.00**	75.00	**0.70**

See notes to nonconsolidated financial statements.

Nonconsolidated Statement of Changes in Equity

Nippon Koei Co., Ltd.
Year ended June 30, 2019

	Thousands	Millions of Yen							
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus		Retained Earnings		Unrealized Gain (loss) on Available-for-sale Securities	Treasury Stock	Total Equity
			Additional Paid-in Capital	Other Capital Surplus	Legal Reserve	Unappropriated			
BALANCE, JULY 1, 2017	**15,439**	**¥7,393**	**¥6,093**	**¥835**	**¥1,546**	**¥37,486**	**¥977**	**¥(3,537)**	**¥50,793**
Issuance of new shares	10	22	21	—	—	—	—	—	43
Net income	—	—	—	—	—	2,921	—	—	2,921
Cash dividends, ¥75.00 per share	—	—	—	—	—	(1,192)	—	—	(1,192)
Purchase of treasury stock	(6)	—	—	—	—	—	—	(26)	(26)
Disposal of treasury stock	98	—	—	—	—	—	—	294	294
Retirement of treasury stock	—	—	—	(835)	—	(1,324)	—	2,159	—
Net change in the year	—	—	—	—	—	—	179	—	179
BALANCE, JUNE 30, 2018	**15,541**	**7,415**	**6,114**	**—**	**1,546**	**37,891**	**1,156**	**(1,110)**	**53,012**
Issuance of new shares	14	23	23	—	—	—	—	—	46
Net income	—	—	—	—	—	2,329	—	—	2,329
Cash dividends, ¥75.00 per share	—	—	—	—	—	(1,192)	—	—	(1,192)
Purchase of treasury stock	(3)	—	—	—	—	—	—	(8)	(8)
Disposal of treasury stock	132	—	—	—	—	—	—	401	401
Retirement of treasury stock	—	—	—	—	—	—	—	—	—
Net change in the year	—	—	—	—	—	—	(721)	—	(721)
BALANCE, JUNE 30, 2019	**15,684**	**¥7,438**	**¥6,137**	**¥—**	**¥1,546**	**¥39,028**	**¥435**	**¥(717)**	**¥53,867**

	Thousands of U.S. Dollars (Note 1)							
	Common Stock	Capital Surplus		Retained Earnings		Unrealized Gain (loss) on Available-for-sale Securities	Treasury Stock	Total Equity
		Additional Paid-in Capital	Other Capital Surplus	Legal Reserve	Unappropriated			
BALANCE, JUNE 30, 2018	**$68,788**	**$56,719**	**$—**	**$14,342**	**$351,510**	**$10,724**	**$(10,298)**	**$491,785**
Issuance of new shares	213	214	—	—	—	—	—	427
Net income	—	—	—	—	21,606	—	—	21,606
Cash dividends, $0.70 per share	—	—	—	—	(11,058)	—	—	(11,058)
Purchase of treasury stock	—	—	—	—	—	—	(74)	(74)
Disposal of treasury stock	—	—	—	—	—	—	3,720	3,720
Retirement of treasury stock	—	—	—	—	—	—	—	—
Net change in the year	—	—	—	—	—	(6,689)	—	(6,689)
BALANCE, JUNE 30, 2019	**$69,001**	**$56,933**	**$—**	**$14,342**	**$362,058**	**$4,035**	**$(6,652)**	**$499,717**

See notes to nonconsolidated financial statements.

1. BASIS OF PRESENTATION OF NONCONSOLIDATED FINANCIAL STATEMENTS

The accompanying nonconsolidated financial statements have been prepared from the accounts maintained by Nippon Koei Co., Ltd. (the "Company") in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

As consolidated statements of cash flows and certain disclosures are presented in the consolidated financial statements of the Company, nonconsolidated statements of cash flows and certain disclosures are not presented herein in accordance with accounting principles generally accepted in Japan.

Effective for the year ended March 31, 2014, the Japanese Financial Instruments and Exchange Act and its related accounting regulations were amended to allow an entity to not disclose certain designated footnote information in its nonconsolidated financial statements if the entity prepares and discloses consolidated financial statements. Accordingly, the Company has omitted disclosure of certain footnote information in the accompanying nonconsolidated financial statements.

In preparing these nonconsolidated financial statements, certain reclassifications and rearrangements have been made to the Company's nonconsolidated financial statements issued domestically in order to present them in a form, which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2018 nonconsolidated financial statements to conform to the classifications used in 2019.

The nonconsolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥107.795 to $1, the approximate rate of exchange at June 30, 2019. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. *Nonconsolidation* — The nonconsolidated financial statements do not include the accounts of subsidiaries. Investments in subsidiaries and associated companies are stated at cost.

b. *Cash Equivalents* — Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value.

Cash equivalents include time deposits and investment trusts, both of which mature or become due within three months of the date of acquisition.

c. *Investment Securities* — Investment securities are classified and accounted for, depending on management's intent, as follows:

(1) Held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost; (2) available-for-sale securities, which are not classified as the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, in a separate component of equity; and (3) investments in subsidiaries and associated companies are reported at cost.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

d. *Inventories* — Work in process is stated at the lower of cost, mainly determined by the specific identification cost method, or net selling value.

e. ***Property, Plant, and Equipment*** — Property, plant and equipment are stated at cost. Depreciation of property, plant, and equipment is computed principally by the straight-line method based on the estimated useful lives of the assets. The range of useful lives is principally from 2 to 50 years for buildings, 2 to 40 years for structures, 2 to 15 years for machinery and equipment, and 2 to 20 years for furniture and fixtures. The useful lives for lease assets are the terms of the respective leases.

f. ***Long-Lived Assets*** — The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

g. ***Allowance for Doubtful Accounts*** — The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Company's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

h. ***Retirement and Pension Plans*** — The Company has a contributory defined benefit pension plan and unfunded retirement benefit plan for the benefit of its employees.

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The Company accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the nonconsolidated balance sheet date. The projected benefit obligations are attributed to periods on a straight-line basis. Actual gains and losses and past service costs are amortized and recognized in profit or loss over 13 years.

Hitherto, retirement benefits for directors were provided at the amount that would be required if all directors retired at the nonconsolidated balance sheet date. However, the Company terminated benefit pension plans for directors. The balance in the nonconsolidated balance sheet is the estimated amount for directors who have belonged to the Company since the plans were effective.

i. ***Allowance for Anticipated Project Loss*** — The Company has made a provision for anticipated losses on uncompleted project contracts.

j. ***Asset Retirement Obligations*** — An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

k. ***Employee Stock Ownership Plan*** — In accordance with Practical Issues Task Force ("PITF") No. 30, "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts," upon the transfer of treasury stock to the employee stockownership trust (the "Trust") by the entity, any difference between the book value and fair value of the treasury stock shall be recorded in capital surplus. At year-end, the Company records (1) the Company's stock held by the Trust as treasury stock in equity, (2) all other assets and liabilities of the Trust on a line-by-line basis, and (3) a liability/asset for the net of (i) any gain or loss on delivery of the stock by the Trust to the employee shareholding association, (ii) dividends received from the entity for the stock held by the Trust, and (iii) any expenses relating to the Trust.

l. ***Research and Development Costs*** — Research and development costs are charged to income as incurred.

m. ***Leases*** — Finance lease transactions are capitalized to recognize lease assets and lease obligations in the nonconsolidated balance sheet. All other leases are accounted for as operating leases.

n. ***Accrued Bonuses*** — Bonuses to employees, directors, and Audit & Supervisory Board members are accrued at the end of the year to which such bonuses are attributable.

o. ***Allowance for Environmental Measures*** — The Company has made a provision for the treatment of Polychlorinated Biphenyl ("PCB") Wastes based on the Act on Special Measures concerning Promotion of Proper Treatment of PCB Wastes.

p. ***Income Taxes*** — The provision for income taxes is computed based on the pretax income included in the nonconsolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

q. ***Foreign Currency Transactions*** — All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the nonconsolidated balance sheet date. The foreign exchange gains and losses from translation are recognized in the nonconsolidated statement of income.

r. ***Revenue Recognition*** — During the progress of operation, the percentage-of-completion method is applied when the extent of progress toward completion, total costs on and total revenue from the contract are reliably estimated. The stage of completion is determined using the cost-to-cost method.

s. ***Derivatives and Hedging Activities*** — The Company uses derivative financial instruments to manage its exposure to fluctuations in foreign exchange. Interest rate and currency swap are utilized by the Company to reduce its exposure to reduce the risks of foreign currency exchange rates and interest rates. The Company does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: (a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the nonconsolidated statement of income; (b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

Interest rate and currency swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

t. ***Per Share Information*** — Basic net income per share is computed by dividing net income attributable to shareholders of common stock with the weighted-average number of shares of common stock outstanding for the period.

Diluted net income per share of common stock is not disclosed because the Company has nothing that might dilute the per share information for the years ended June 30, 2019 and 2018.

Cash dividends per share presented in the accompanying nonconsolidated statement of income are dividends applicable to the respective years, including dividends to be paid after the end of the fiscal year.

u. ***Accounting Changes and Error Corrections*** — Under ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections," and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections," accounting treatments under this standard and guidance are as follows:

(1) Changes in Accounting Policies:
When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions.

(2) Changes in Presentation:
When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation.

(3) Changes in Accounting Estimates:
A change in an accounting estimate is accounted for in the period of the change if the change affects that period only and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of Prior-Period Errors:
When an error in prior-period financial statements is discovered, those statements are restated.

Changes in Accounting Policies that are difficult to distinguish from Changes in Accounting Estimates, and Changes in Accounting Estimates

Change in depreciation method for property, plant and equipment — The Company took the opportunity provided by drawing up the Medium-term Management Plan, its first year is the current fiscal year, to investigate the status of property, plant and equipment usage. As a result, because it is expected that the economic benefit derived from property, plant and equipment assets will be consumed equally over its useful life at the Company, from the current fiscal year the depreciation method for property, plant and equipment has been changed from the declining-balance method to the straight-line method, and costs have been allocated more appropriately.
Also, as a consequence of this change in the depreciation method, for certain property, plant and equipment assets, upon consideration of the price at the time of retirement, the residual value has been changed to ¥1, a memorandum of value.
As a result of this change, the depreciation expenses for the current fiscal year decreased by ¥15 million ($139 thousand,) and each of operating income, ordinary income, and income before income taxes increased by ¥15 million ($139 thousand) from the amounts based on the previous method.

3. CHANGES IN PRESENTATION

(1) Change in accounting classification — "Deposits received" (¥2,322 million ($21,541 thousand) in the current fiscal year and ¥1,803 million in the previous fiscal year), which was included in "other current liability" in the non-consolidated statement of balance sheet in the previous fiscal year, is presented separately due to its increased materiality.

(2) Changes following the adoption of Partial Amendments to Accounting Standard for Tax Effect Accounting — Effective from April 1, 2018, the Company applied Statement No. 28 Partial Amendments to Accounting Standard for Tax Effect Accounting, issued by the ASBJ on February 16, 2018. Accordingly, it changed its method of presenting "deferred tax assets" under "investments and other assets" and "deferred tax liabilities" under "long-term liabilities."
Consequently, previously stated amounts presented in the non-consolidated balance sheet for the previous fiscal year were changed as follows: "deferred tax assets" under "current assets" decreased by ¥593 million. Furthermore, "deferred tax liabilities" under "long-term liabilities" decreased by ¥593 million compared with the time before the change went into effect, reflecting the offsetting of non-consolidated deferred tax assets.

4. INVENTORIES

Inventories at June 30, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	**2019**
Work in process	**¥4,329**	¥5,697	**$40,160**
Raw materials and supplies	**179**	218	**1,660**
Total	**¥4,508**	¥5,915	**$41,820**

5. REDUCTION ENTRY

In the case of the acquisition expenses of the Company that have been subsidized by the national government, the amount of such subsidies is offset against the acquisition cost of the corresponding property, plant, and equipment.

The amount of reduction entry by accounts under property, plant, and equipment at June 30, 2019 and 2018, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	**2019**
Buildings and structures	**¥19**	¥19	**$176**
Machinery and equipment	**167**	167	**1,549**
Total	**¥186**	¥186	**$1,725**

6. INVESTMENTS IN AND ADVANCES TO SUBSIDIARIES AND ASSOCIATED COMPANIES

Investments in and advances to subsidiaries and associated companies as of June 30, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	**2019**
Investments	**¥27,026**	¥26,704	**$250,716**
Advances	**3,041**	2,756	**28,211**
Total	**¥30,067**	¥29,460	**$278,927**

The value of the investment securities of subsidiaries and associated companies is measured at the original acquisition costs, as their fair value cannot be reliably determined at June 30, 2019, since market value and estimated future cash flows are not available.

7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at June 30, 2019 and 2018, consisted of loans from consolidated subsidiaries. The annual interest rates applicable to the short-term borrowings ranged from 0.526% to 0.536% and 0.524% to 0.536% at June 30, 2019 and 2018, respectively.

Long-term debt at June 30, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	**2019**
Unsecured loans from banks due serially to 2026 with interest rates ranging from 0.250% to 2.11656%	**¥18,490**	¥20,985	**$171,530**
Obligation under finance leases	**49**	45	**455**
Total	**18,539**	21,030	**171,985**
Less current portion	**(1,977)**	(2,066)	**(18,340)**
Long-term debt, less current portion	**¥16,562**	¥18,964	**$153,643**

Annual maturities of long-term debt at June 30, 2019, for the five years and thereafter were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
Years Ending June 30	Long-Term Debt	Lease Obligations	Long-Term Debt	Lease Obligations
2020	¥1,960	¥18	$18,183	$167
2021	2,162	13	20,056	121
2022	5,890	9	54,641	83
2023	2,176	6	20,186	56
2024	2,026	2	18,795	19
2025 and thereafter	4,276	1	39,668	9
Total	¥18,490	¥49	$171,529	$455

The Company and four financial institutions have entered into overdraft contracts and a commitment line contract by syndicated loan over three years. These commitment line contracts included restrictive financial covenants for each financial institution.

8. EQUITY

Japanese companies are subject to the Companies Act of Japan (the “Companies Act”). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders’ meeting. Additionally, for companies that meet certain criteria, including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/Decreases and Transfer of Common Stock, Reserve, and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

(c) Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity.
The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

9. INCOME TAXES

The Company is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.6% and 30.9% for the years ended June 30, 2019 and 2018, respectively.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at June 30, 2019 and 2018, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	**2019**
Deferred tax assets:			
Investment in subsidiaries	**¥358**	¥356	**$3,321**
Allowance for doubtful accounts	**67**	30	**622**
Accrued bonuses	**422**	392	**3,915**
Liability for retirement benefits for employees	**31**	35	**288**
Allowance for anticipated project loss	**27**	40	**250**
Overdepreciation	**72**	48	**668**
Loss on impairment of long-lived assets	**62**	62	**575**
Loss on valuation of investment securities	**93**	44	**863**
Other	**287**	243	**2,662**
Less valuation allowance	**(626)**	(555)	**(5,807)**
Total	**793**	695	**7,357**
Deferred tax liabilities:			
Reserve for deferred gains on sale of property	**746**	758	**6,921**
Reserve for special account for advanced depreciation of property	**477**	265	**4,426**
Unrealized gain on available-for-sale securities	**192**	510	**1,781**
Prepaid pension cost	**800**	728	**7,421**
Other	**27**	5	**250**
Total	**2,242**	2,266	**20,799**
Net deferred tax assets	**¥(1,449)**	¥(1,571)	**$(13,442)**

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying nonconsolidated statement of income for the year ended June 30, 2019, with the corresponding figures for 2018, is as follows:

	2019	2018
Normal effective statutory tax rate	**30.6%**	30.9%
Per capita levy of local tax	**2.6**	1.9
Expenses not deductible for tax purposes	**2.0**	3.3
Foreign income tax	**4.7**	5.6
Valuation allowance	**2.1**	1.8
Special Tax Credit	**(7.3)**	(4.4)
Income not included for tax purposes	**(3.6)**	(1.7)
Other – net	**(0.4)**	(3.0)
Actual effective tax rate	**30.7%**	34.4%

10. CONTINGENT LIABILITIES

At June 30, 2019, the Company had the following contingent liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Refundment bonds of a subsidiary	¥48	$445
Performance bond of subsidiaries	73	677

11. SUBSEQUENT EVENTS

a. Appropriations of Retained Earnings

On August 30, 2019, the following appropriation of retained earnings at June 30, 2019, was resolved by the extraordinary Board of Directors' meeting:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥75 ($0.70) per share	¥1,193	$11,067

The total amount of the dividends above includes ¥17 million ($158 thousand) in dividends on the Company's shares owned by "ESOP."

b. Issuance of new shares as restricted stock compensation

The Company decided to issue new stocks as restricted stock compensation at the extraordinary Board of Directors' meeting held on September 26, 2019, as follows:

The Company aims to have the directors (not including outside directors; "Eligible Directors") share benefits and risks of stock price fluctuations with shareholders and further enhance their willingness to contribute to improving stock prices and enhancing corporate value. Therefore, the Company decided, at the Board of Directors held on August 14, 2017, to introduce a restricted stock compensation system (the "System"), which will issue restricted stock to Eligible Directors.
Furthermore, the 73rd Annual General Meeting of Shareholders held on September 28, 2017, approved, under the System, setting the total amount of monetary compensation claims payable to the Eligible Directors as compensation related to restricted stock at a level where it does "not exceed an annual amount of ¥60 million." In addition, the total number of 50,000 shares, which are restricted stock to be allotted to Eligible Directors will be the upper limit of the number of restricted shares to be allotted in each fiscal year, and the transfer restriction period of restricted stock will be between one year to five years, determined by the Board of Directors.

(1) Payment date	October 25, 2019
(2) Class and number of shares to be issued	13,514 shares of common stock of the Company
(3) Issue price	¥3,125 per share
(4) Total issue price of shares to be issued	¥42,231,250
(5) Capitalization amount	¥1,563 per share
(6) Total capitalization amount	¥21,122,382
(7) Method of offer or allotment	Allotment of specified restricted stocks
(8) Method of contribution	In-kind contribution of monetary compensation claims
(9) Allottees, number thereof and number of shares to be allotted	13,514 shares to eight directors of the company (excluding outside directors)
(10) Transfer restriction period	October 25, 2019 to October 24, 2022
(11) Other	Issue of new shares to be allotted is conditioned on the securities registration statement taking effect in accordance with the Financial Instruments and Exchange Act.

c. Purchase of treasury shares

At the meeting of Board of Directors held on August 13, 2019, the Company resolved as follows regarding matters concerning the acquisition of treasury shares in accordance with the provisions of Article 156 of the Companies Act, which shall be applied mutatis mutandis pursuant to the provision of Paragraph 3 of Article 165 of the same Act.

1. Reason for the acquisition of treasury shares
   To raise the value per share of stock by improving capital efficiency and enhancing shareholder return.

2. Details of matters pertaining to the acquisition
   (1) Type of shares to be acquired
   Common stock of the Company
   (2) Total number of shares available for acquisition
   800,000 shares (upper limit) (5.1% of total issued shares (excluding treasury shares))
   (3) Total purchase price of shares
   ¥2 billion (upper limit)
   (4) Acquisition period
   From August 14, 2019 to June 30, 2020
   (5) Acquisition method
   Market purchase on the Tokyo Stock Exchange
   (i) Plan to acquire up to 500,000 shares of the "(2) Total number of shares available for acquisition" through the Off-Auction Own Share Repurchase Trading (ToSTNeT -3) system.
   (ii) Of the "2. (2) Total number of shares available for acquisition," make a market purchase under the trust method up to the number of shares after deducting the shares acquired pursuant to (i) in the preceding paragraph.

3. Status of acquisition of treasury shares as of August 31, 2019
   (1) Type of shares acquired
   Common stock of the Company
   (2) Total number of shares acquired
   420,500 shares
   (3) Total purchase price of shares
   ¥961 million
   (4) Acquisition period
   From August 14, 2019 to August 31, 2019
   (5) Acquisition method
   Market purchase on the Tokyo Stock Exchange

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Nippon Koei Co., Ltd.:

We have audited the accompanying nonconsolidated balance sheet of Nippon Koei Co., Ltd. as of June 30, 2019, and the related nonconsolidated statements of income and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Nonconsolidated Financial Statements

Management is responsible for the preparation and fair presentation of these nonconsolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of nonconsolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these nonconsolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the nonconsolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the nonconsolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the nonconsolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the nonconsolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the nonconsolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the nonconsolidated financial statements referred to above present fairly, in all material respects, the financial position of Nippon Koei Co., Ltd. as of June 30, 2019, and the results of its operations for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the nonconsolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

September 27, 2019

Member of
Deloitte Touche Tohmatsu Limited

Significant Consolidated Subsidiaries

Significant consolidated subsidiaries of each segment as of June 30, 2019 are as follows:

Domestic Consulting Operations

Tamano Consultants Co., Ltd.
Nippon Civic Consulting Engineers Co., Ltd.
El Koei Co., Ltd.

International Consulting Operations

Koei Research & Consulting Inc.
Nippon Koei Latin America-Caribbean Co., Ltd.
Nippon Koei LAC, Inc.
Nippon Koei India Pvt. Ltd.
Nippon Koei Vietnam International Co., Ltd.
Philkoei International, Inc.
PT. Indokoei International
Myanmar Koei International Ltd.

Power Engineering Operations

Koei System Inc.
Sankoh Machinery Co., Ltd. (Equity method affiliate)

Urban & Spatial Development Operations

BDP Holdings Limited
Building Design Partnership Limited
Quadrangle Architects Limited
Kisho Kurokawa Architect & Associates Co., Ltd.

Energy Business Operations

Koei Energy Co., Ltd.
Nippon Koei Energy Europe B.V.
Ironmont Hydro Pte. Ltd.
PT. Arkora Hydro (Equity method affiliate)
Ohkura Masudama Hydropower Co., Ltd. (Equity method affiliate)
Powersource Philippines Distributed Power Holdings, Inc. (Equity method affiliate)
Flexible Energy Service Co., Ltd. (Equity method affiliate)

Real Estate Leasing Operations and Others

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DSI Co., Ltd.

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